Trading to WIN

Course

One Day at a Time

By
Bryce Gilmore
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A complete guide to S&P500 Futures Trading Intra-day

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Queensland. Australia.

The Author:

I have been a successful trader in one form or another for most of my adult life. I have worked independently for myself for the past 32 years.

In 1981 while I was in London a trader friend of mine took me into his broker's office for lunch. This is where I saw for the first time a completely different trading world, the futures markets!

When I returned to Australia I opened a commodity futures trading account, bought 2 contracts of Comex Silver and proceeded to try my hand at trading paper. My first trade made me US$11,500 in two weeks and I was hooked.

It wasn't always easy going but over the next few years I was completely absorbed with the mechanics of the futures markets and began to develop my own software to explore the methodologies of Elliott and Gann.

Bryce Gilmore

By 1989 I had gained a reputation as an authority on Time and Price Analysis and became well known to serious technical analysts from around the world.

It has been a pastime of mine to teach people to trade from my early days in this business. In recent years with the advent of electronic trading and cheap commission rates the growth in day trading volume has opened new doors and that is what this course is about – taking advantage of the opportunity.

I believe with the help of this TTW course and also my Dynamic Time & Price Analysis book (2002), anyone who is willing to put in the hard work will definitely be able to make an excellent living as a professional futures trader.

For more information on my profile you should visit my web site:
http://www.bryce-gilmore.com/

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Information on my internet Trading to Win Group:
This group is a select club of traders, and is steadily growing. Details for entry are on the bulletin board of my web site.

http://bryce-gilmore.com/bulletin.htm

Testimonials for students and professional traders:
These are on my web site:

http://www.bryce-gilmore.com/bulletin.htm

Steve Rifkin's personal S&P mentoring program
Information for traders who need hands on help to grasp the correct application of my methods. You will find links to this information on my web site.

http://bryce-gilmore.com/bulletin.htm

INFORMATION ON MY XABCD INTRA-DAY SOFTWARE
For analysing price geometry either intra-day or daily.

http://www.bryce-gilmore.com/XABCDpage.html

Introduction:

One of the failures of most trading books I have read in the past is that they leave out the "human element" associated with the day-to-day behaviour of most of our markets.

Markets are living things and react to current events as well as technical events rather than to just move along with no consideration for the outside world, as most technical books would like you to believe.

Technical Analysis alone will not a trader make. Successful trading requires an understanding of the players, as well as the technical and the fundamental aspects of any market, and a continuing hands on day-to-day approach.

My way is all about technical preparation, studying the fundamentals, listening to the current news and evaluating the unfolding chart patterns being generated between the actions of the buyers and the sellers in the markets I follow.

To trade profitably in real time only requires you to identify low risk entry opportunity in my opinion. This is the bottom line between success and failure.

Simple trading opportunities in the S&P are often presented daily with the release of US economic indicator reports, FEDERAL RESERVE decisions on interest rate policy, Consumer Sentiment levels or specific price earnings reports of the major companies high up in the S&P 500 complex.

On top of this the intra-day market movement is constantly influenced by traders using geometric analysis to buy and sell at perceived pressure points that are relative to Gann and Elliott Wave theory.

In times of indecision the S&P market will go through accumulation and distribution phases. These phases trace out or form patterns on your chart that imply future directional tendencies. Each and every consolidation pattern that a chart of the market price movement forms will have certain reliable implications, implications that professional traders will act upon.

All it takes is some good or bad news to be released and this will set off a new series of impulse buying or selling that moves the market to new DAILY highs or new lows. These situations are our primary source of trading opportunities.

Nevertheless the S&P market will never move great distances in a straight line up or down unless the fundamental or psychological attitude surrounding current events is quite unusual.

Again you have to understand trends are always interrupted with periods where the exuberance in the market flow slows down and we have corrections to bring the buyers and the sellers back into balance.

Each and every market correction or sudden reversal of trend due to an exhaustion between the buyers or the sellers is in itself generating yet another new trading opportunity.

Learning to identify these opportunities is the basis of my TTW Course. Once you can learn to identify the low risk opportunity levels along the way where you can make trading entries you will be trading to WIN.

I am also always trying to evaluate the position of the technical traders versus the impact of sudden unexpected news that can enter the market.

I have ceased to believe that one needs to be anything more than a day trader to make good consistent profits in the market. Well at least I have concluded that with 24 hour trading this is the least stressful way to trade.

There could be occasions in different markets than I currently trade that offer trades where you enter and hold for longer periods of time. I don't disbelieve this but even when you do they still confront you with some surprises.

One thing I can tell you before you begin to study technical methodologies, is that you have to have an appreciation for the fundamental aspects that affect the ebb and flow of the markets these days.

News surveillance is so fast now days that when something odd or unexpected happens the market players often react in a way that was not predictable beforehand via the normal technical approaches.

It really gets you to understand why you need to have a finger on the pulse each day if you wish to be successful.

If you just want to breeze in and out of the market without doing any preliminary research or watching for important upcoming reports you are placing yourself in a position of luck. Luck has nothing to do with trading to WIN.

Successful trading is all about trade selection at the point of least risk, getting out fast if it does not work immediately or letting your profits run while the market shows no sign of reversing direction.

Day trading is all about trading predominately in the direction of the shorter-term trend. This trend could be influenced by patterns and geometry occurring in different time frames. It could be due to 1-minute bars, 5-minute bars, 30-minute bars, 60-minute bars or daily chart patterns.

Making decisions to enter a position requires a current opinion of where the market is at, right now. Not yesterday or where it will be at tomorrow but now. Money is won or lost on the spot or in the next 20 minutes most of the time.

The novice never seems to understand these principals of trading and as a result they all end up losing money initially until they get the message.

The market is not like anything else in life, it goes backwards and forwards all the time without any respect to your opinion of the longer-term trend.

To be profitable you have to learn how to deal with the market on a day-to-day basis.

Not only that, you have to learn how to deal with the market on a week to week, month to month and year to year basis.

In the larger picture markets move in secular trends and cyclical trends, these trends are obvious after the fact. A secular trend can last for many years but the cyclical trends, be they bull or bear trends vary in length; The cyclical trends can be motivated by all sorts of economic data and governmental influences. Cyclical trends can be broken down into what I would call seasonal trends; these can be influenced for all sorts of reasons, weather, interest rate policies, wars, threats of wars, company earnings, employment trends, consumer confidence, bank lending policies, natural disasters and even terrorism acts.

In a seasonal trend the market will move through phases that are predominately influenced by the actions of large traders. You see, every day the traders come to work with an opinion of what they expect the market to do. They have sophisticated systems they have developed that give them buy or sell signals and they act on them. This is where the technical indicators give you a guide to their medium term activity.

Once a seasonal trend develops and the medium term position of large traders is known the market movement is then governed by the actions that have shorter-term considerations. These are different types of systems that shorter-term traders have developed or learnt to take advantage of the day-to-day market movement. It is when you get down to the nitty-gritty of the day-to-day that you can appreciate the bigger picture.

To become a successful trader you have to appreciate the overall picture and then subdivide the unfolding patterns into seasonal trends and then trends of a lesser degree. Then each day trade the current influences be they technical or fundamental.

During the day-to-day activity the market will move from oversold to overbought and back again, sometimes many times over a day.

Traders will buy and sell based on technical indicators and the price ranges they understand to represent support or resistance.

The future direction of price will be dictated by the balance or imbalance between the whims of the traders. Price direction of any market only comes down to one thing, i.e., who is in the majority, the buyers or the sellers.

To become a successful trader you will have to monitor the buyers and sellers each day. If you know the points where they will buy or sell or reverse position you have the EDGE to beat them at their own game. This approach allows you to move with the ebb and flow of the market rather than restrict your actions to some system that can't adjust quickly enough.

Outline for this course manual:

In 2002 I said there would be no need for me to write anymore, but that hasn't exactly turned out to be the truth. Although all my previously published work contains all the information I think is necessary to make a success of trading, I was left with a slightly unfulfilled feeling.

I decided to re-write the TTW book as a more informative course and then when combined with my DYNAMIC TIME & PRICE ANALYSIS book students would have a complete standalone instruction course.

This manual will take you through in stages using the methodologies in trading principle the way I do it.

Much of the material may not be new to you but it is the way that I combine it together that makes it so powerful.

This manual will instruct you how to prepare for the trading day and then to stay a step ahead of what is going on as the market unfolds.

My hope is that this final course will act as a reference for interested traders for years and years ahead.

At least I will know that everyone who has this book will at least have every chance of becoming a professional trader.

The approach I am going to take is to lead you through the basics and then expand on them as we go on.

The first thing you need to learn is how to control risk. After that you can learn to be selective with your trading entries. Once you have mastered these simple things you should study the time and price material, the Gann material and the other criteria I have published in DT&PA so you will know the outer workings of the market place.

It is very important for you to understand what can motivate other traders if you wish to be successful, as the market has technicians working on all different levels, i.e., they make decisions based on data over different time frames.

If you understand the basic premise of WAVES OF SIMILAR DEGREE you will be able to monitor what is predictable in the intra-day, the daily and the weekly price movement of any market.

Study this material a little each day until you have received the message I am sending you. It is in your own interest to do so.

ONE THING I NEED TO TELL YOU BEFORE YOU EMBARK ON THIS TOUR:

All the technical things I will teach you that help you to pick reversal levels in the market are indications of what might happen, they are not guaranteed to work.

At best, the best signals, may work 75% of the time. They are always suspect until they provide confirmation. Not so much on the intra-day but in the larger picture.

But the truth is that when they don't work they are non-confirmation and give you the go ahead to keep trading with the direction of the current move.

As long as you always bear this in mind you will not have a problem trading with Stop and Reverse Orders, I am an expert at it.

Life in the fast lane is about using knowledge to make decisions. If your first choice does not work then it is most likely your second will.

I am a believer in this philosophy.

SOME THINGS WILL NEVER APPEAR OBVIOUS BUT OTHERS WILL:

I reckon that when the technical levels are more obvious to the crowd they have a greater potential to work.

You must remember this because it will be the difference between being a loser or a winner.

FALSE BREAKS:

False breaks are always a problem but you have to remember in life that when markets reach a level where the technical world knows spells support and resistance there are players out there who don't know and make trades that will test them.

If technical levels are tested and they break temporarily – no longer than 5 minutes – then any rebound is the direction to trade.

The patterns after a false break will confirm the reversal in any case.

This is important for you to learn as nothing in life is perfect in the electronic world and you must learn to adapt.

38.2 – 50 – 61.8 levels:

These are the levels that everyone respects. You will know if they are solid because the market will not break them by more than 2 ticks. If it does and reverses always bare in mind that on the next test they will most likely get taken out.

The higher the degree of wave movement you are in the more reliable they are.

If they break you can target the next level as your best option.

THE TWO-DAY CORRECTION RULE:

One of my strongest rules in trading is that markets in any prolonged trend should not make any correction that endures for more than 2 days if the trend is to going to resume.

Always bear this rule in mind when you are in corrective moves as the second day always provides trading opportunity.

3-DAY BALANCE POINTS:

The three-day balance point is the mid point of the last 3 days trading range. When the market is above it, it is potentially bullish. When below it, it is potentially bearish. This is only a rule in the shorter-term of course.

3-DAY SWING HIGHS & LOWS:

The 3-day swing high or low even if it is from an intra-day chart is the fastest way to calculate the on going trend.

If you get a false break of the 3-day swing high or low and the market reverses you will know from the unfolding pattern.

Normally if the 3-day swing high or low is taken out it is a sign of a reversal, i.e., if the market is retreating on the current move.

THESE ARE SOME SIMPLE RULES TO START WITH:

If you follow my rules and trade with tight stop losses you can win – if you choose to use wide stops you will lose.

NEVER FORGET THIS: Never leave an open position on if it is in a loss position at the end of the day.....

ALSO

Believe what you see and not what you think.

The only thing easier than making money is losing it. You must trade by rules and discipline to be successful.

Section 1: Chapter 1:

Close Stops:

The first thing a trader needs to learn to become profitable is to control losses. If this was the only thing I could teach you it would at least give you a 50/50 chance of becoming profitable.

Giving the market room to make up its mind is not part of my vocabulary. As far as I am concerned my reason for taking any trade must be proven right immediately or I shouldn't be in that position!

Markets move in thrusts between implied support and resistance, if we enter positions at the critical point the market will either agree with us or it won't.

Professional traders whether they are system traders, program traders or floor traders have technical levels in mind to buy or sell off. The market creates levels as it moves along which will either facilitate trade or reject it. The market flow is all I am interested in as a trader.

When I see the levels I am prepared to buy or sell off I will give the trade several chances depending on the degree of price movement I think is possible at the time.

It is better to take 1 or 2 small losses and be sure you are the right way around than to sit and watch a position turn sour on you.

To start with the market can only do 3 things: -

1. Go up.
2. Go down.
3. Go sideways.

If you are buying a breakout pattern the market must make a clean break for your new position to be profitable. If the previous resistance was say 1100 on the E-mini, the breakout point would be a trade at 1100^4, as this should be enough to catch the initial stops of the people around the wrong way. As they get caught out there will be more orders nested up above by the people giving the market a little more room. These orders should feed the initial thrust into new territory almost immediately the breakout happens. If the breakout fails it is because traders have sell orders in abundance nested just above the breakout point. In which case the breakout will become a false break and will fail. You will know the breakout is failing because the market does not move in your favour almost immediately. So if that happens you should scratch the position as soon as it trades back below 1100.

The same situation applies when selling a support level on a breakout.

There is no second-guessing a breakout trade as it will be proven right or wrong within a matter of minutes – sometimes seconds!

If you get a REVERSAL BAR on a false breakout it is signalling you to take the reverse position for a quick scalp back the other way. If you do take a reverse position you apply a close stop of no more than 1^4 points on that as well.

Trading to WIN is about getting into a position that will work with the least possible risk to your capital. Once the position is working you can then think about trade management.

So let's just get this tactic firmly in your mind before we go anywhere else. I am trying to create a foundation of good trading principles before I teach you the finer points of trade selection.

If you are buying or selling a breakout pattern the position must move in your favour immediately or within a minute to confirm your decision was the correct one. Other traders must be in agreement with you or the trade will not work anyway. If it doesn't then you abandon the position and start from fresh. There is no point sitting around when the market is not confirming you are right about what you are doing. **Hope** will not make you a profit! If you want to be a trader you must accept that you are either going to be right or wrong straight away – not in 30 minutes time. Forget about tomorrow because tomorrow is another ball game.

When selling into strength (market is going up in a correction) in a 3 day established downtrend the levels that you select must be exact on ratio or a double top. These levels must not be exceeded by more than 1 tick (2 maximum) too mean anything. This way you can sell a double top or a 50%, even a 61.8% retracement and place a stop 1 or 1^4 just above your entry point. The 1^4 is probably better because the sells can only be done on the BID and not the OFFER which will always be a 1 tick spread at minimum in the first place. The closer you can keep the stop the better off you will be in the long run.

The same thing applies in reverse when you are buying a RETRACEMENT in an up trending market.

If you ever have any doubts in future why you are not winning then come back and read these words over and over until you get it.

You can only be a consistent winner if you control losses. You must never hold a losing position under any circumstances. You must learn to take trades at the critical points and accept they will be either right or wrong almost immediately.

A winner is a grinner – a loser is all but past history. If you are in between then I have hope for you in the future.

ENTRY TECHNIQUES FOR TOPS & BOTTOMS:

When Selling - If you don't see the Crows SCRATCH

When Buying - If you don't see the Doves SCRATCH

When the reversal shows the CROWS or DOVES move your STOP to breakeven immediately. Once that is done the entry is riding for no risk. It will either turn into a WINNER or you are out and start again.

The SAR is a stop and reverse order that you can use because if the resistance or the support you sold or bought off breaks the market will at least run enough for you to retrieve your original opportunity costs. Most times you may not wish to take the SAR but it is always worth considering when you think the opportunity is an each way bet.

Now the real issue is in locating the level to place your sell or buy orders and once you have that worked out you will be kicking goals with the best of them.

Once you refine your entry points you are going to be a professional trader. Before you can do that you will need to learn everything I am going to tell you in this book.

Don't take what I say lightly as if you do you will not be following what I have to teach you and you will become a statistic – a statistic is my word for a would be trader who blows his trading account to bits.

Entering trades at the point of decision is the only way you can control risk, i.e., unless you are in a running move and just jump on board and place a tight stop above or below the last 5 minute bar.

Never give the market more than 2 points to prove you right or wrong, if you do you will eventually end up with the arse out of your pants.

ENTRY TECHNIQUES FOR BREAKOUT TRADES:

This is an example of a top pattern that was recently displaying a sign of exhaustion and offered a chance to be shorting it.

There was some to and fro in the middle of the prior range that caused a couple of headaches but the end result was what counted. Notice how the stronger breaks were at the levels which had prior double bottoms.

The more evidence that you can find that the support level if broken will hit other trader's stops is the evidence you need to gather.

In any case as we work along you will see how the logical supports and resistance levels the market has to break through, to confirm further impulses, have to be obvious to other professional traders.

We want to be with them and leave the "geese" with their own dilemmas.

Once you can understand how to read the pattern and the logical levels traders will easily recognise your career is beginning to form a foundation.

This will be your first step in becoming a professional trader.

But believe me never give the market anymore room than two points (8 ticks), on the E-mini that is only $100. If you break my rules and cop a beating you will end up in so much pain you will be better off to stop trading until your mind returns to normal. Losses are part of this business but they have to be controlled if you want to stay ahead.

ENTRY TECHNIQUES IN UPTRENDING MARKETS:

I like to sell predominately because results seem to come quicker, but you have to be a buyer half of the time and you need to understand the habits of the market to get set without risking to much.

Breakouts in up trending markets can do one of three things.

1. They break out cleanly because there is a force of buyers overwhelming the sellers.
2. They break out and come back to test the breakout half the time.
3. They break out and get hit on the head by sellers sitting up there waiting to take them on.

So you have 3 possibilities to consider when you are taking a buy signal and you still have to follow the main rule – control risk.

In a strong market the breakout will come and never look back. In a mediocre market the breakout will come, exceed the market high it is breaking out of by a few points and then come back to the breakout level and then regain strength. If the retest of the breakout comes back more than 2 ticks inside the breakout level it could be telling you two things.

1. I am not a buy but a sell as this was a false break.
2. I am not sure about this and it is time to remain on the sidelines.

You have to deal with each of these situations as the market hands you more information. Trend indicators can help with your read of the market mood.

As we move along the logic behind all of this will be explained satisfactorily.

THINGS YOU NEED TO LEARN TO BE A PROFESSIONAL TRADER:

1. Close stops.
2. Enter only at the point of least risk.
3. Study what the market pattern is telling you.
4. Learn the habits of the traders who know what they are doing.
5. Prepare before you sit down to trade.

You have to understand that it does not matter what you think the market will do, it will not go anywhere unless there is an imbalance between the buyers and the sellers. One side needs to be winning for the market to trend.

The other thing is that you can enter the market at anytime you get a signal that is valid. These signals appear 5 or 10 times a day.

Novices never get to learn that the market is easy because they rush in without studying the market flow. Many just listen to brokers and they do not have on line data to see what the market is doing.

You have to have the facilities of the professional trader to call yourself one.

Most of all you have to act like one.

The biggest common fault of losers is that they take a position and will not get out of it when the writing is on the wall that they were wrong.

You will always know when you were right and you will always know that if you took a trade and it didn't do what you thought it would you are now wrong. If it looks like it is not working SCRATCH the trade and wait for a better opportunity. To do anything else is stupidity.

Ask yourself! Would I stay in a high stakes poker game and bet on the next card drawn if I was holding a 7 and an 8 – NO you would just throw them away. Yet if you had a pair of Aces in the hole you would bet the living shit out of the pot.

The first thing you need to learn to be a professional trader is to remove all the stupidity from your game plan. You must have a good reason to take any trade.

You cannot afford to be lazy or for that matter think for one minute you know what the market will do. You may think you do but you will still have to wait to find out if you were right.

One other piece of advice – avoid forecasters as all they will do is cause you to hold losses in the hope the market will come back and save you.

The market will never save you – you have to save yourself.

Section 1: Chapter 2:

Market Mechanics:

The primary most important asset for the professional trader is his understanding of market mechanics.

It can take months for the average novice trader to understand the street sense that prevails in the markets. Most newcomers never get to appreciate the experience because they are long gone before they realise that trading is common sense, nothing more.

There are so many "mad professors" out there that attempt to invent foolproof trading systems it is unbelievable. They curve fit past data to work out the odds of buying and selling when some proprietary algorithm they have dreamt up repeats the "set up" that produced profitable trades in the past.

Commodity trading systems and horse racing betting systems fail because of volatility, the market is never running in a consistent way month in month out. Sure it may do it for 3 or 4 months and then everything looks like it is a licence to print money. When you put these systems to the test the "Eldorado" anticipated usually turns into fools gold.

System operator's work on the pretence that the market will "trend" around the minimum of 30% of the time. If it does they can curve the data to their algorithms to project a winning scenario. The truth is you can "curve fit" any price series to a winning scenario by manipulating the draw-down parameters.

System developers sell their scenario to the public instead of trading it themselves.

The public love this stuff mainly because we have trading magazines devoted to promoting the easy way to riches – Geezes; people jump out of the bushes to get hold of this stuff. Boy! I could tell you stories I have heard about people trading systems. Most of them are funny but sad stories.

I have seen some sophisticated systems last for 15 years or more with several lean years in between, but in the end they all fall prey to the market mechanics. Or the people using them can't maintain the discipline required to trade the system and stop trading it. Reason is continuous losses, just before the system gets on a run.

It takes a very special skill to trade a system and be successful, I'm not saying there aren't systems that work, only that they are rare.

How do I know? Well I actually traded a sophisticated system with the discipline required for nearly 4 years. It was wonderful sometimes but in the end when I wasn't trading it, and my ex-partner was, it blew up like a land mine during the 1987 crash.

The reason I was more successful was because I used to trade my system on the system, i.e., I used a scaling system on the system. My partner couldn't stand it, that's why we fell out. Once after a huge profit run over a month or two the system was in profit $70,000 a unit, I had 2 and my partner had 2. At lunch one day I told him I was closing out, he said you can't do that, what will the others we manage the system for think of us? I said, "OK I will tell them", he said no, he had a better idea he would buy out 1½ of my units, I agreed and he paid me the money. He continued on with 3½ units from that point, I had only ½ a unit, now how stupid was he to enter the system at that level?

Anyway that wasn't the end of it because the system kept making money for another 2 weeks, about another $20,000 a unit. At that stage the positions in 6 different commodities were extremely overbought. I kept telling him to quit and he kept laughing at me for missing out. It really put a huge strain on the relationship.

Then the tide turned and the system started losing, it's prior track record was never to lose more than 50% / $25,000 of its original staking plan of $50,000. Eventually over a short period of 2 months it lost $55,000 a unit before turning the corner. So he lost 3½ times $55K = $192.5K from winning his $210K – Net result after losses +$17.5K, I had won $155K and given back $27.5K, my net +$127.5K. In the 5 months or so my share of commissions back from the brokers we were trading the system for was also about $35K.

The real problems began when I re-entered the system with a new unit just after it turned the corner and then bailed again when I got $20K ahead, which took only about a month. I did that several times over the next year while I was working on my Wave Trader software and then quit the system to trade my own discretionary approach. When I quit so did 80% of the brokers clients.

Then the system hit a brick wall in the crash of 1987 and lost $65K a unit in 2 days. So I know all about systems, believe me.

The craziest systems I have seen in my 20 odd years in this business are the "Planetary Movement" systems. Now these guys are unbelievable, they don't even have a clue how to trade yet they manage to sell their "pie in the sky" systems to the gullible public. They make heaps without ever risking a penny in the market. Some of the buy sell signals can be 4 years apart. Now I ask you how does that system know if that market will be even open in 4 years time?

MARKET TRENDS

Markets usually trend approximately 30% of the time, over time.

Now that does not mean they will trend regularly, only that the mean is around 30%. They could trend for 50% of the time over a given period and then go choppy for twice the time.

The market does not give you any guarantees, it does not care what your opinion is; it listens to the flow of money that is all.

MARKET MECHANICS

A professional trader needs to understand market mechanics so that he knows how to expect the market to flow.

All markets go through periods of inactivity followed by periods of medium or extreme activity and then most likely back to inactivity.

Knowing the reasons for the activity is paramount to your success as a trader.

In short-term periods of 2 to 4 days a market will gravitate around a balance point when it is in a state of inactivity or medium activity. In extreme periods of activity a market will move in one direction or the other with very minor corrections during the same time frame or extended time frames. In a protracted trend the market will never correct for more than a day or two before advancing again, if it does correct for more than 2 days you know you have reached the balance point of the trend at that time.

Usually the 2 or 3 day thrust periods of activity are followed by corrections to the prior movement, back to what I call a balanced level. This is usually in the ballpark of 50% (38-62%) of the advance or decline, having done that they will attempt to test the prior high or low of the thrust and move on to a new level.

When markets fail on a test of a breakout they normal come back to the balance point again. If they don't and then break out they prove their strength and are safe to trade in the new thrust. If they come back below the balance point they are said to be in a weak position and a change in trend is likely.
I.e., they will start thrusting for new levels in the opposite direction. Each day they break the prior days extreme point they are trending.

You can take this analogy and apply it to all time periods if you want to, but for the purposes of trading we only have to capture the short-term movements to make money.

RESIDENT MARKET STOP ORDERS

All markets have standing orders sitting in the wings; they may be to buy or to sell at depending upon which way the market is breaking out of the previous 2-3-5-10 day trading range.

These stops belong to people either protecting a position or initiating a new position.

The market seems to have knowledge of where these stops are and will often move just enough to take them out and cause a small bush fire until the stop orders are exhausted, then the market will move back to test the breakout level or even break back through it and return to the balance point of the day or the prior day.

In times of extreme volatility when a market has run hard in one direction for several or more days the market will exhaust all the new buyers or sellers to the point that there will be no one left to support the new price level. When this happens the reaction is just as severe as the new thrust, in the opposite direction, moves the price back to the nearest balance point.

TRENDS DEVELOP BECAUSE

Trends develop because there are more buyers than sellers or more sellers than buyers. And price will move in that direction until an exhaustion point is reached.

Usually the balance point will be exceeded until the market will not facilitate trade, then the trend will reverse. The dimension of the reversal will depend on how many people are caught at the new levels and start losing money as the market reverses. The more of them the faster and stronger will be the reversal and of course the balance point will be over-run in the opposite direction causing the same thing to happen again in reverse.

MARKET FACILITATION

Is a fancy expression to describe the balance or imbalance between buyers and sellers? The market price facilitates trade as buyers and sellers are willing to meet each other.

Some online systems even have a market facilitation index to guide you mechanically. The theory is that as the tick volume moves up or down you can tell if the market is facilitating trade, i.e., is the volume increasing or decreasing on the current price move. As the volume deteriorates the market price is assumed not to be facilitating trade.

Normally at any market high or low the tick volume will reduce to nothing.

BALANCE POINT

What is the balance point I am talking about?

Well the balance point is the price that will facilitate trade, i.e., the price where buyers and sellers are evenly matched.

OPEN INTEREST

Open Interest tells you the changes in activity of the main players in the market. On any given day there will be more activity from day traders than longer term holders but changes in open interest are reportable and leave a clue to the strong hands and their objectives.

THE OPENING PRICE

Often referred to as the best kept secret by professional traders.

The opening price sets the "tone" for the day.

a) 50% of the time the opening price will be the high or low for the day.
b) The opening price becomes the daily comfort zone for traders.
c) Traders will buy and sell off the price movement surrounding the opening price.

I will illustrate the trades possible using this information in another section.

AVERAGE DAILY RANGE

Most markets in an average state of activity develop a tendency to trade in an average range. I.E., The daily high/low range of most days will be the same around 50% of the time.

The S&P500 futures for instance are around 18 points, or $900 a contract on the E-Mini contract.

The two points to consider are these: -

a) Is the current daily range inside the average range?
b) Is the current daily range outside the average range?

A professional trader should be aware of the average daily range for any commodity contract he trades, this way you will not be putting trades on when you are outside the envelope unless you are sure of what you are doing.

The average daily range also indicates to you when the market is building up energy for a sharp move. The more days a market trades in a tight range with small daily ranges it is said to be coiling.

Basically it means it is compressing like a spring. When it does this, stop orders accumulate on either side of the future breakout points, once the orders go market they will cause a sharp run for a time.

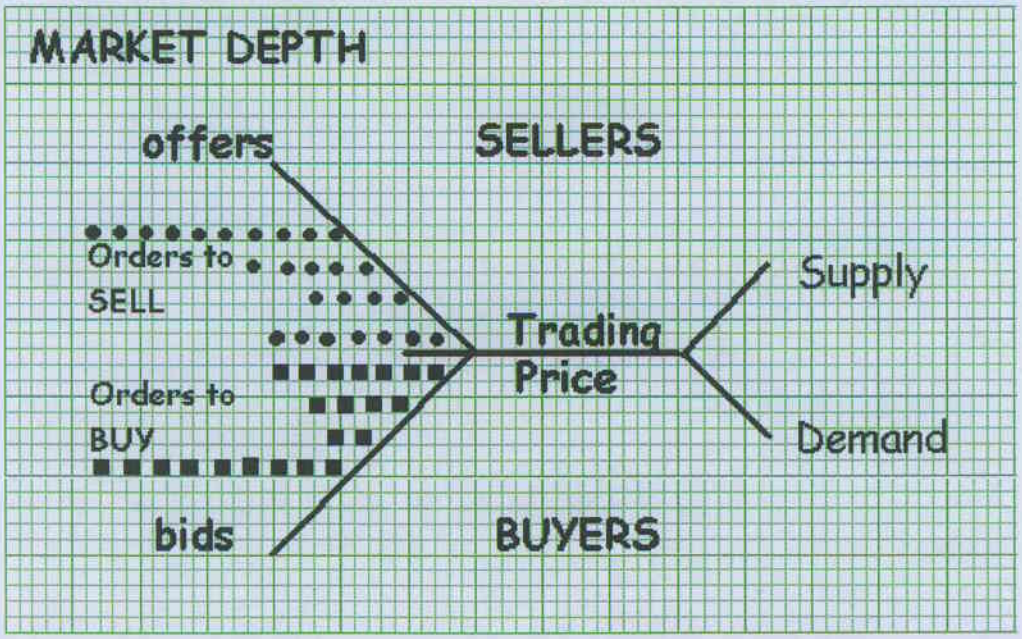
DAILY LEVELS: Opening Price – High – Low & Close

Before you contemplate becoming a professional trader you will also need to learn some basic facts about the market place.

The OPENING PRICE:

The opening price is a level determined by the amount of orders in the system that will facilitate fair-trading.

Official market makers determine a level prior to the opening rotation of stocks where they will bid and offer individual stocks. Their actions start the ball rolling for the day. From there on the price fluctuations are determined by the supply and demand pressures of the day.



The market trades at the price that facilitates trades

There is only one reason price goes up or down:

The price of a stock goes up because you have more willing buyers than sellers and the buyers have to BID UP the price to actually own it.

The price of a stock goes down because you have less willing buyers than sellers and the sellers have to reduce their OFFERS to liquidate their positions.

The market place is a self-regulating auction where the demands of the buyers or sellers determine the levels that will facilitate trade.

The DAILY HIGH:

The high for the day is the price where BUYERS refuse to pay higher prices – the first sign of the high for the day will be low volume as the high is reached.

As far as market depth is concerned there will be an abundance of OFFERS and very few BIDS to keep the market rising. As the buyers are all consumed the sellers have to reduce their OFFERS to find the next level down where BUYERS can be found.

The fast moves down occur because there is no market depth of new BUYERS standing when the sellers want to liquidate.

The high for the day could occur for any number of reasons, i.e., it could be a technical level where sellers gather in abundance or it could be some news release where the buyers just head for the hills or decide to liquidate their long positions and become urgent sellers.

As traders we need to be alert and watch for the SIGNS to identify the reasons for the reversal.

The DAILY LOW:

Basically this is just the opposite of the daily high - the only difference is the SELLERS dry up.

The SELLERS could have liquidated all they want to for the day and are waiting for higher prices or they may have profitable positions on the SHORT side and just want to cover their positions at a profit.

What one needs to be alert to on any given trading day is the market MOOD.

There is bound to be some outside influence either in the news or some fundamental economic report that traders are watching out for that will influence their actions.

The DAILY CLOSE:

The daily closing price is the place where the official market makers are prepared to meet each other on the BID and OFFER.

For the S&P500 we have 500 stocks trading all day and the CASH INDEX (SPX) of their value is being updated second by second. The futures market trades on the trader's expectations of the CASH INDEX direction. Buyers and sellers come and go all day for many numerous reasons.

SUMMARY

Now if you can understand what I have told you in this chapter you are half way there to becoming a successful trader.

I say only half way because you still have to know how to execute trades with the minimum of risk when the opportunity arises.

RISK management is the single most important part of being a successful trader. I have seen good traders make money week in week out for long periods, and then all of a sudden take a biased view of what the market will do and hold a position against all odds expecting it to come back. I have even been guilty my self, my saviour has only been that I have a rule never to hold a position at the close if the trade is in a losing position, no matter what the cost, I have to "eat" it because if I don't I will not sleep at night. Even the next day if it would have come back I can live with it because the odds are 50/50 and I know the worst usually happens when you start hoping. I will talk more on this later.

I take the view that if you enter a trade, for whatever reason, it will start going in your favour very quickly – otherwise you are wrong taking the trade and should get out quickly.

All markets develop habits and if you are astute enough to understand these habits you will know if your trade is working or not. If your trade is working stay with it until it shows signs of slowing.

You must learn to never hold a losing position if you want to become a successful trader. You will hear me repeating this over and over throughout this manual.

Notes:

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Section 1: Chapter 3:

Support – Resistance & TREND:

Support, resistance and Trend are the 3 most important issues for the professional trader.

SUPPORT:
This is the perceived level where buyers will return to the market and sellers will stop selling and begin to cover.

RESISTANCE:
This is the perceived level where buyers will stop buying and take profits and Sellers will step up their selling activity.

SIGNS:
When the market price reaches levels of perceived support or resistance it will demonstrate signs as the buying or selling dries up due to the increase in activity by the side that anticipates the level in advance.

Professional Traders generally have several methods for anticipating support or resistance levels in advance and will nest orders in the market before the market price reaches these levels.

It really depends on how many orders are nested at these levels as to whether they actually turn out to become SUPPORT or RESISTANCE levels.

I have already stated that the only reason the market goes up or down is the result of the buyer/seller participation and who is the overwhelming factor.

As we move along I will teach you all the ways that professional traders have for selecting certain price levels where they think the market will run into resistance or find support. Some of the SIGNS that the market gives are so easy to predict in advance it becomes embarrassing from time to time just to know of them.

The simple ones we start with are: -

1. Double Tops
2. Double Bottoms
3. 50% retracements
4. 1:1 Alternate wave expansion levels
5. 1:1 Alternate wave correction levels
6. In up trending markets previous resistance becomes support
7. In down trending markets previous support becomes resistance

These market price levels alone are enough market knowledge for you to make a successful career as professional trader - if you were to trade with a close stop loss risk management policy.

I often wonder to myself as I watch the market eek its way between these points "who is buying and selling in between". The only conclusion I can come to is that it is the trend followers, system traders, market makers or the gambling public. Because any professional trader worth his "salt" would wait until the critical levels were reached before placing their trades.

The only way to guarantee success in this business is to only act when everything appears to be in your favour. You should never chase a trade because you missed the train. I have watched some traders, even done it myself, lose money time and time again because they did not act at the right price and chased the trade into a territory where they could not apply proper risk management.

TREND:

You have all heard the saying, "The trend is your friend"!

Well it is your friend because over time a trend will expand further allowing you opportunities to go with it or against it when it is overbought or oversold.

Since I know there are so many traders out there who have no more technical knowledge of trading other than to buy or sell against oscillator readings, I know that when the 3-day trend is UP and the intra-day trend is oversold we will likely get buying. The opposite goes when the 3-day trend is DOWN and the market is overbought intra-day, we will most likely get selling. I can take trades at the logical prices levels that will attract buying or selling. Some of these trades may only last for a very short time but they can be very profitable.

You must always monitor the trend on a 5-minute chart, a 30-minute chart and a daily chart looking for situations where the trend indicators will give system operators signals to either enter or take profits.

It is very important to understand these things before I teach you the finer points of trade selection; you must first understand the basics.

If you understand the basics you will develop a street sense for how the market confuses people and leaves them caught in a trap for professional traders to scalp them.

After all the facts are, 90% come to the party to lose their money, it is a proven statistic. We are here to get it and the only way to do that is with discipline and knowledge.

Section 1: Chapter 4:

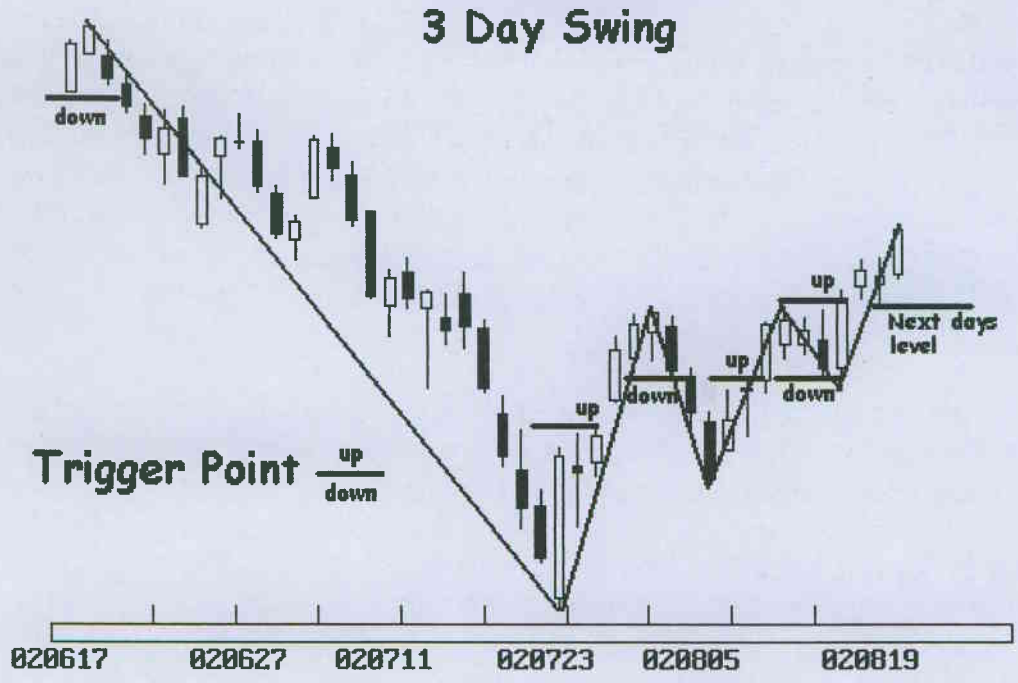
Three Bar Swing Charts:

There are all sorts of TREND INDICATORS but the quickest indicator to act upon is the 3 BAR PRICE SWING CHART.

If markets that were previously going up in trend are breaking back below the previous 3 bar low they are suspect for a possible change of trend in that degree. The same applies in reverse to markets going down.

THE 3-DAY SWING:

The three-day swing chart is the best MEDIUM-TERM indicator of TREND as corrections in strong trends should not persist for more than two days. They might in the early days of a new trend but when you get into a 3rd wave of ELLIOTT degree the trend should be well established and stick to my rules. If they don't then you should be immediately alert that the current market trend is exhausted.



WHERE HAS THE MARKET BEEN GOING IN THE PAST 3 DAYS?

This example shows the low on an Outside Reversal day breaking up for 5 days – tries to sell off for 3 days breaks back up for 4 days corrects into the 3rd day and breaks out to the upside. It was a confirmed BUY at that time.

We have several ways to determine the relevant direction as a guide to the current market strength or weakness. We need to know if the market position is ABOVE or BELOW the BALANCE POINT of the 3-day RANGE.

The 3 day Swing chart is an indicator of the current MEDIUM TERM trend. The swing is either UP or DOWN based on the recent PRICE activity.

3-DAY SWING CHARTS:

These are constructed using the highs and lows of the past 4 days. For instance if the current price today moves below the lows of the past 3 days the swing is down – if the price today moves above the highs of the past 3 days the swing is up. Each signal is a relevant appraisal of the medium term direction of the market. If the market makes an OUTSIDE REVERSAL of the past 2 days range the trend has changed.

The 3-day swing chart is the simplest way you can keep your mind focused on the general market direction.

Once you know the general direction of the market you can move onto using tools that will tell you the strength or weakness of the current swing.

I have tried to drum this simple approach into every student of mine for years and found that to some the simple things are easily discarded. – they (the idiots) simply forget to look at the obvious SIGNS and attempt to make decisions based on other things they think are more sophisticated. You need to look up the word "sophisticate" in the dictionary – it means – MAKE ARTIFICIAL, deprive of simplicity – make worldly-wise! - a' la sophistication – make it harder and complicate your life!

Keep it simple and it is easy – that is my message.

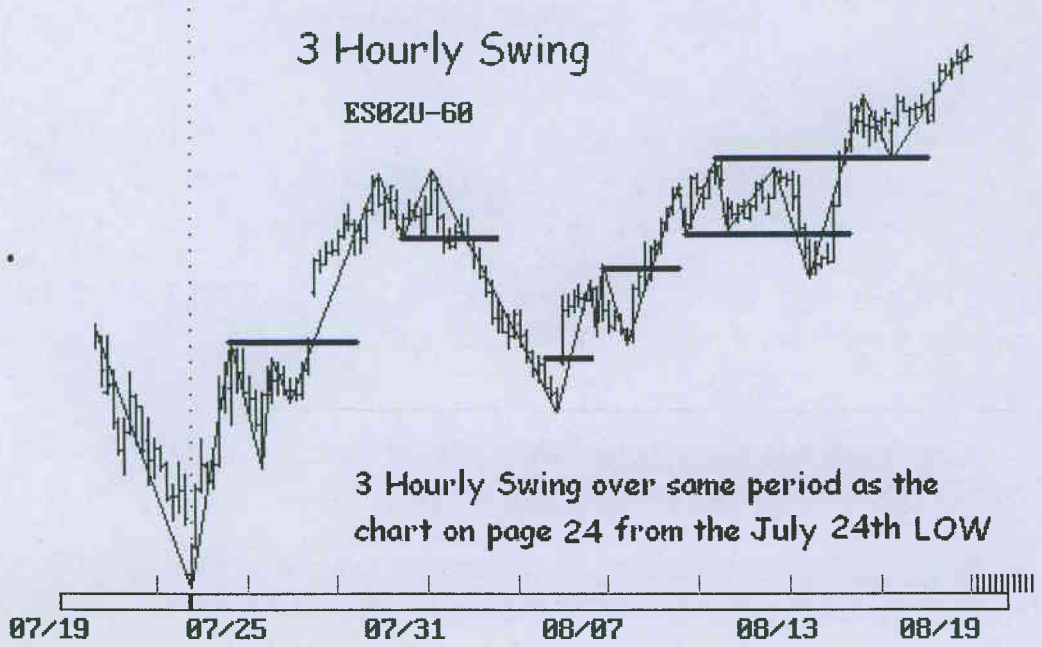
THE 3-DAY SWING IS EITHER UP OR DOWN

It will hold form with the trend so it cannot be ignored. If the commitment of traders is not in the direction of the trend it will tell you to beware.

The 3 Hour Swing Chart:

If you want to filter the 3-day swing chart you can move down in time to the hourly 3 bar swing – it's hardly worth going down to lesser time frames, for this you can just use a SLOW STOCHASTIC to determine if the short-term moves are showing overbought or oversold signals.

Using the hourly INTRA-DAY data over the same period from the July 24TH, 2002 low shown on the chart on page 24 you can see how much more information becomes available to your trading analysis and decision making process.



You will notice that when you narrow down the time frame it allows you to gain a faster appreciation of the trend changes or adjustments to the current trend as they occur.

The market is always giving signs for the future possibilities.

1. It could be making higher highs and higher lows that indicate it wants to keep going up.
2. It could be making lower highs and lower lows that indicate that it wants to keep going down.
3. It could be making false breaks of support and reversing and indicating renewed strength in the current trend.
4. It could be making false breaks of previous resistance levels and failing to go on indicating inherent weakness.

You have to continually read the market mood from the pattern of the trading to stay in sync with the current market mood.

To assist yourself you should continually watch the news entering the market and evaluate the effect it is having on the players.

The news is the foremost indication of where the market may be headed in the short-term, make no mistake about that.

To trade without watching the news is a real fault some traders fall into.

Section 1: Chapter 5:

Old Highs & Lows:

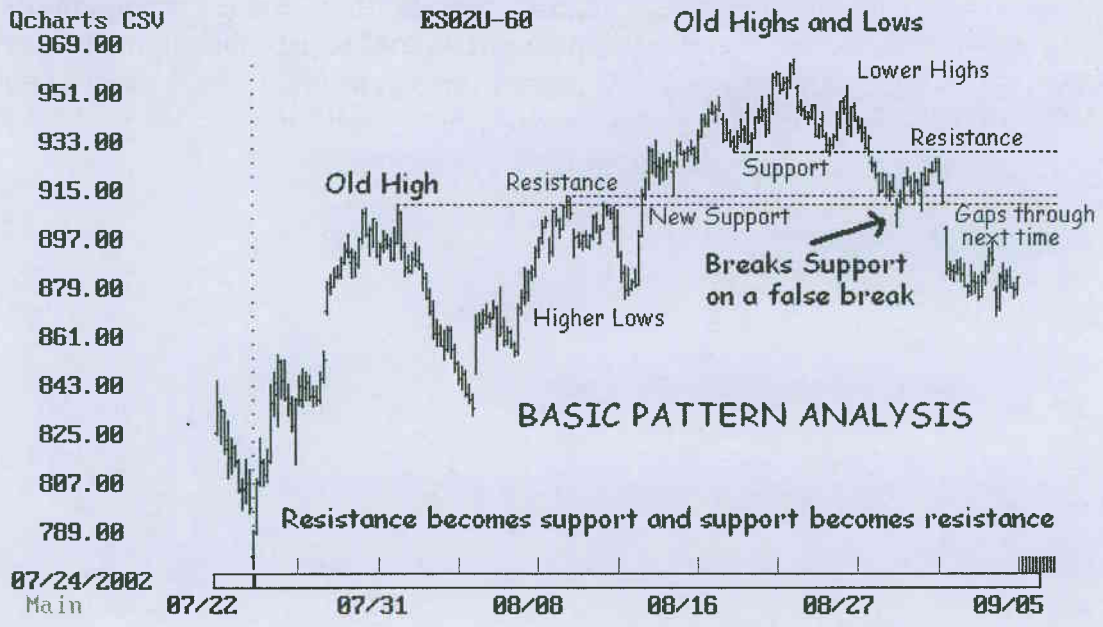
It is very important for your trading career that you understand the habits of professional traders in regards to old highs and lows.

Traders will treat old high points as resistance until they are broken and afterwards they will treat them as support.

Conversely they will see old lows as support until they are broken and then they will treat them as resistance.

Between the mix you will find opportunities to both buy and sell the market with a limited risk.

Here is just a simple example of the process I have many more examples to come as we proceed. Nevertheless this is one of the basic principles of trading that you need to understand before we go any further.



The occurrences of this phenomena are more likely on the intra-day charts varying down from 60 minute to 5 minute than they are on a daily chart but they do occur on the daily chart and must always be viewed as possibilities.

The daily chart is more likely to contain slight false breaks at major double bottoms or double tops.

Section 1: Chapter 6:

The 50% Balance Point Rule:

50% of any market range is an important level to monitor when considering the current market position and trend.

The 2 and 3-DAY RANGE:

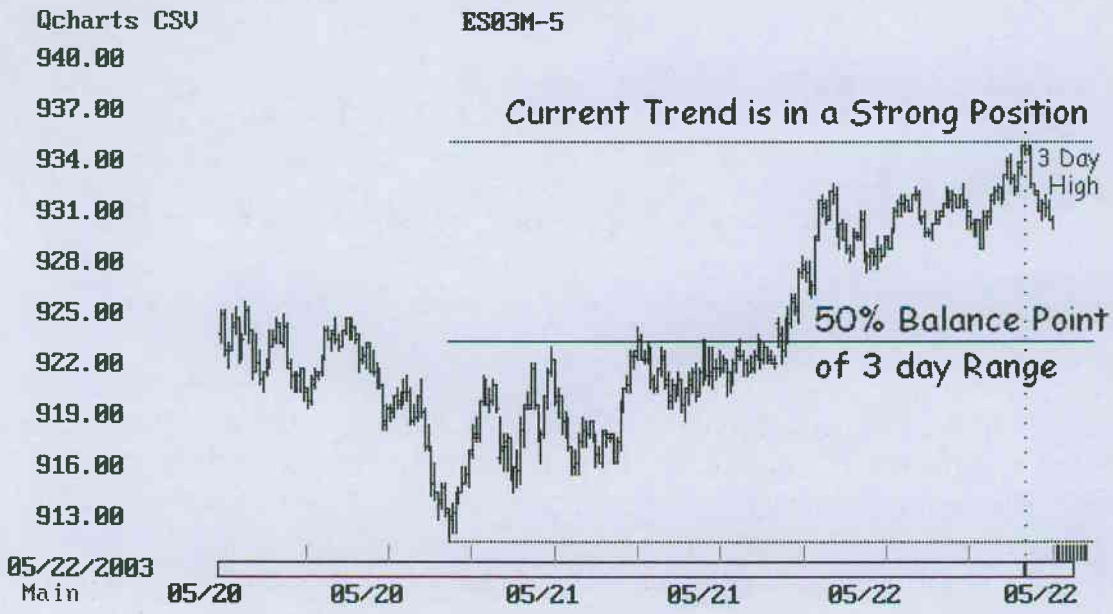
The 50% level of the past 2 and 3-day trading range is the one I place most focus on.

Traders have been taught forever that the 50% level is the BALANCE POINT or EQUILIBRIUM POINT of the market activity at any particular time.

My standard rules are: -

1. When the currently traded price is above the 2/3 day BALANCE POINT it is in a STRONG POSITION.
2. When the currently traded price is BELOW the 2/3 day BALANCE POINT the market is potentially in a WEAK POSITION.

In most strong UP trending market moves the price retracements (corrections) should not come back below the 50% level of the prior 3-day range. If they do then the degree of wave in progress has moved to a higher degree wave movement. If the market does not correct more than 38.2% of the 3-day range it is in a far stronger position of trend.



Here is an example of the market over the past few days as I began writing this chapter.

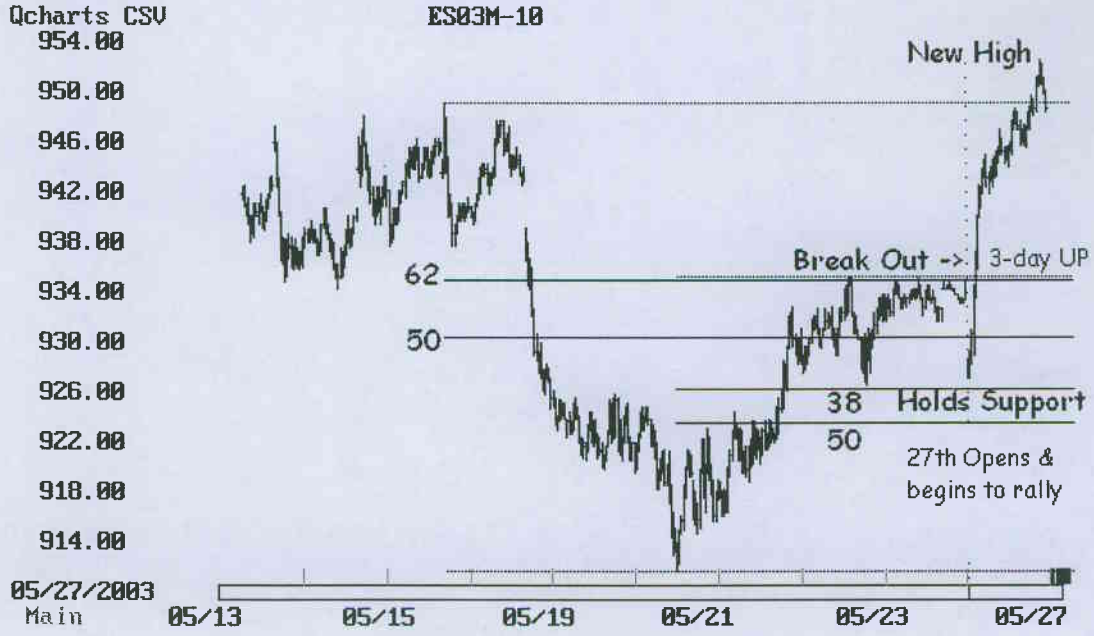
On the 3rd day of the current move up the market was encountering resistance at the 61.8 level of a larger range correction. It had to trade higher to have the 3-day swing chart roll to bullish.

One could argue that the 62% retracement was the overhead resistance and the rally had the potential to fail. Well that was already a possibility but before it was going to become a reality the market would have to break back below the 50% level of the past 3 days.

Always remember that the 50% level is the sign of strength or weakness no matter what degree of time frame you are looking at.

What followed was an inside day which retraced 38.2 of the 3 day range and found support.

Now there was a holiday for Memorial Day on the Monday following this last chart and the next trading day was going to be Tuesday 27th May.



The market opened and tried to test the previous sessions low which was the logical support and then rallied – the rally never looked back all day until position squaring took place going into the close.

WE CAN LEARN A LOT from the 50% BALANCE POINT RULE:

You can even formulate a trading plan around it as the 50% level of any range is the most watched technical level professional traders are focused on.

They will buy and sell off it all the time.

As you progress with this manual you will see the number of examples I have given where the market either stopped dead in its tracks on a 50 or it broke through and then the 50 level becomes the support in an uptrend or resistance in a downtrend.

If you are looking for a support to hold at a 50 level it is going to be a stronger technical level if something else such as a 1x1 lines up with it, the same goes for resistance in a downtrend. You will see what I mean as we move along.

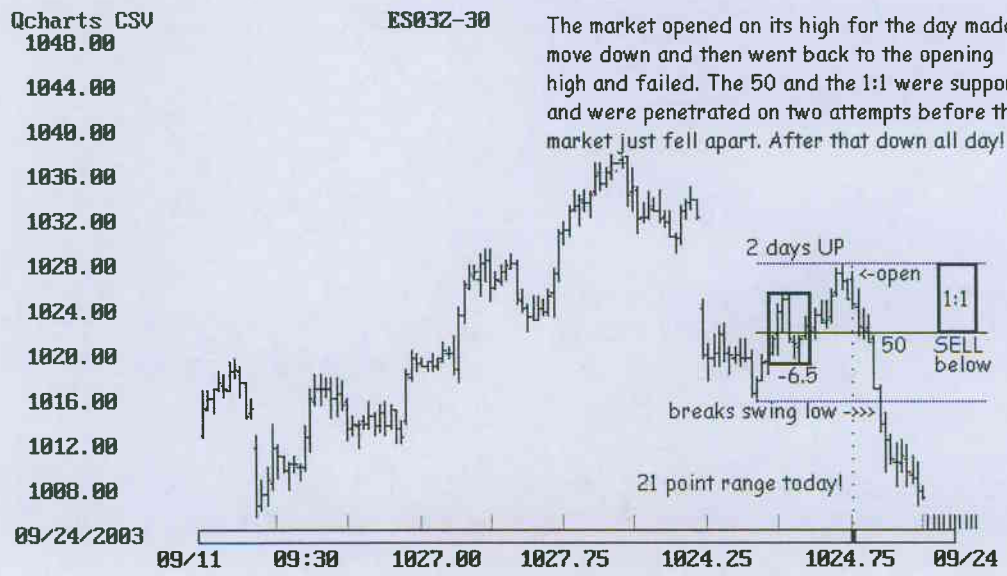
The thing to remember always is that if the market takes out the 50 easily then the next solid point of support or resistance should be the 61.8

The trend will always become clear to you when the 50 either holds or breaks and then you can trade with confidence because you will know that every other professional trader has seen the same thing and will act on it.

The majority of professional traders are only looking at the 50 and then the 61.8 or the 38.2. These are not going to explain the market geometry all the time but once they are not working traders will revert back to old tops and bottoms and other less important tools such as trend lines or indicators to establish an opinion.

My point to you is that the 50 gives you a clear insight into the trend in progress and you must learn to use it because it is as important as a hammer is to a carpenter as far as we are concerned.

Today after re-editing this chapter this is what the market did and it is a perfect example of all the things I am trying to teach you.



Section 1: Chapter 7:

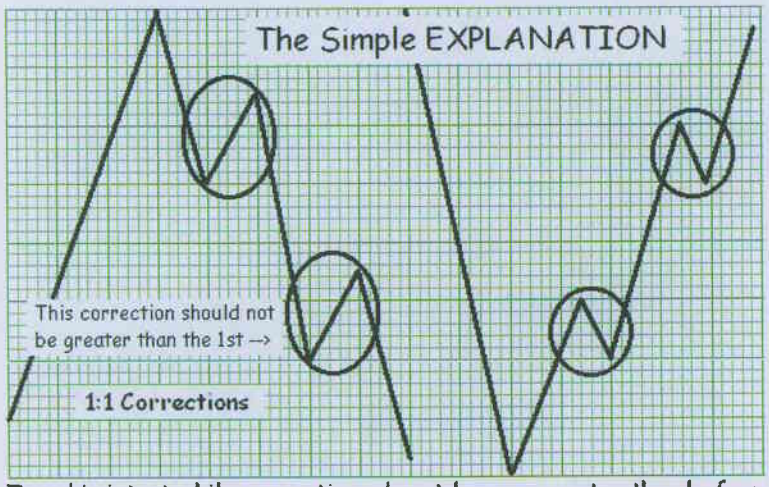
The 1:1 Overbalancing Rule:

The 1:1 overbalancing rule is possibly the most important trading rule I have when it comes to determining where the market will go in the short term. I use it primarily on the 5-minute chart for intra-day swings but it can also be a great tool in larger time frames.

The 1st rule is: -

Corrective waves of similar degree in progressive market impulse movements should not be greater than the preceding corrective wave of similar degree if the trend is going to remain intact within that degree.

So let's start with the smaller wave degree example first; this type of progression is more likely on a daily 5-minute chart when a new trend gets into progress. The corrections could be around 3-4 points on an E-Mini continuation move.

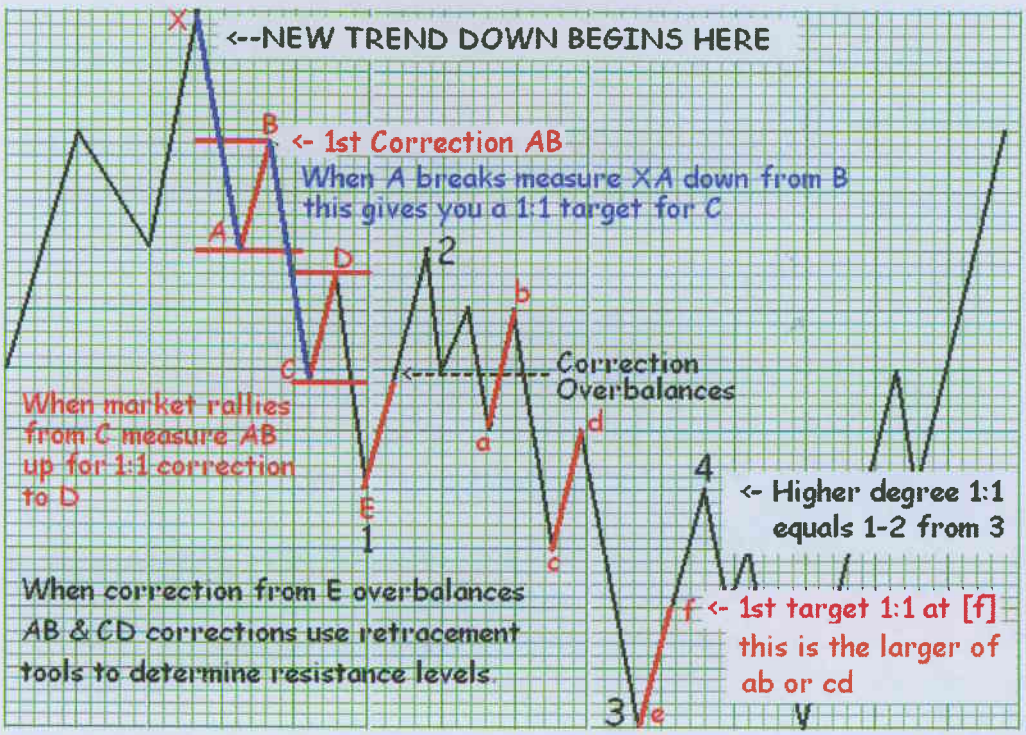


Trend is intact while corrections do not become greater than before

Once a move of some substance begins it always starts from a market reversal of some larger degree movement that has been in force for a series of waves. If it didn't then the market would have been going sideways without any directional tendencies.

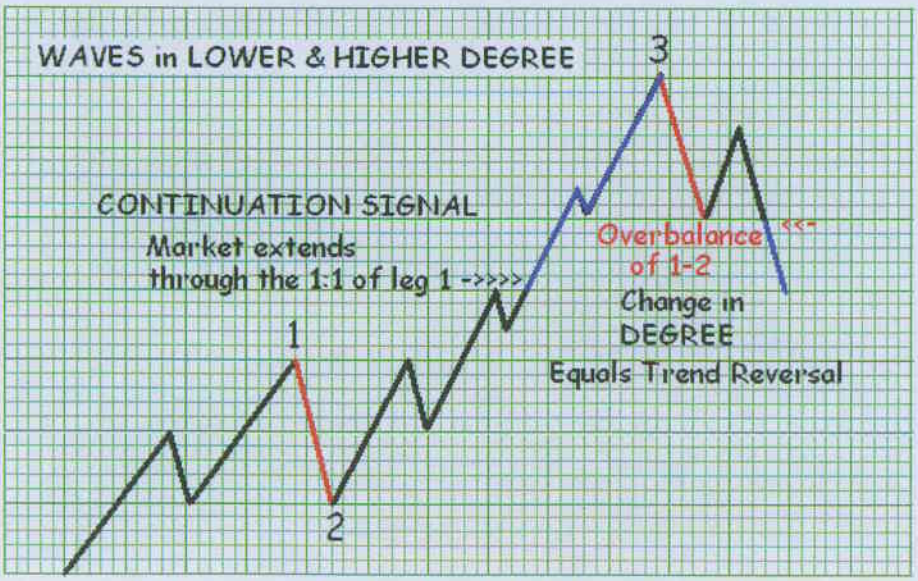
The first thing to remember when you are applying this rule is that the market must look like it is heading in the intended direction with some conviction, i.e., if the market is going down it must look impulsive and then the next correction comes back to a 1:1 with the 1st hits resistance and gives you the confirmation that it cannot rally any higher. This is a sign to re-enter the existing trend down. The reverse also applies to a market move heading up.

WAVES of LOWER & HIGHER DEGREE:

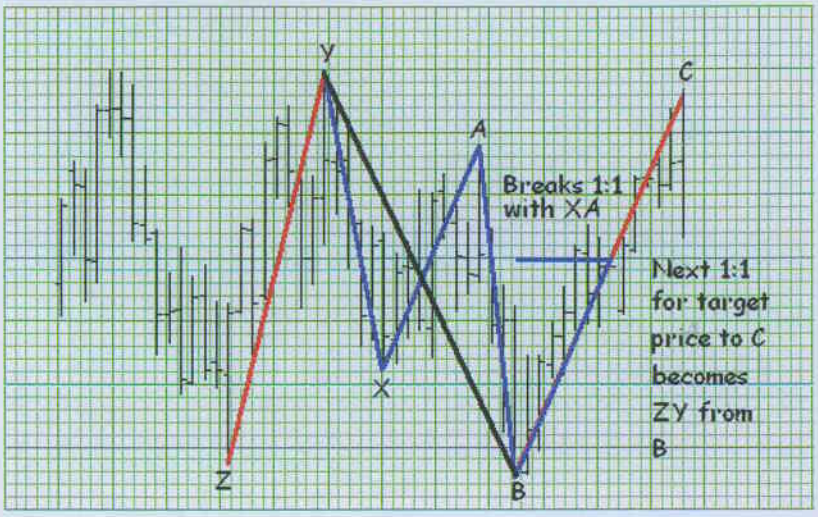


Market waves unfold 1st as waves of smaller degree and then they extrapolate into waves of higher degree as the smaller degree waves combine to form the waves of higher degree.

The 1:1 rule can be used for determining support or resistance levels in all degrees of market waves. You must determine if the market has moved from a lower degree into a higher degree to use this tool correctly.



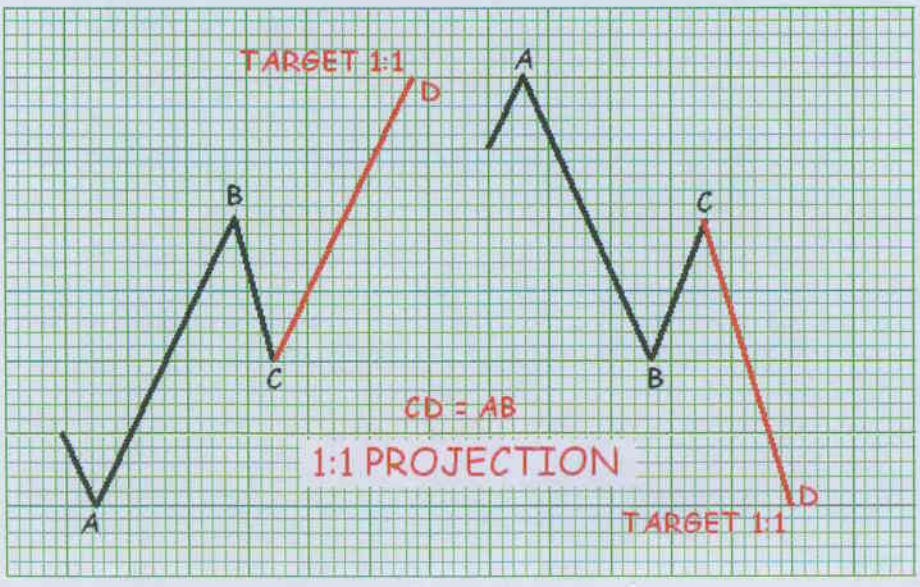
COMPLEX RANGE DEGREES:



In this example when the market reversed trend at (point B) the correct 1:1 calculation for the overbalancing rule becomes XA from B. Once this degree has been exceeded the next 1:1 becomes ZY from B.

I only ever look backwards TWO DEGREE LEVELS when I am calculating market targets on any given trading day. If you start trying to work out to many targets you will just confuse the issue. Unless the current market is within range of making it to a 1:1 I am not interested in it.

PROJECTING AN IMPULSE WAVE TARGET PRICE USING THE 1:1 RULE:

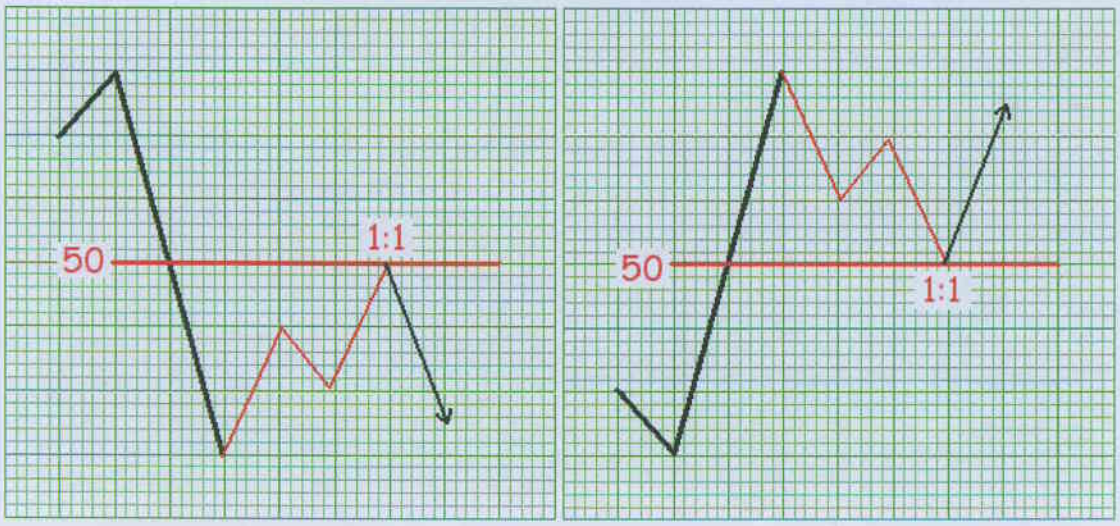


The benefit of the 1:1 projection tool is that it can give you a profit target to aim for. If the market reaches the 1:1 target and continues on then it is telling you that the current trend in progress is strong.

In contrast if the new thrust does not reach the 1:1 target and reverses trend beforehand it is telling you the trend is weak.

I don't consider reversing position when the market arrives at a 1:1 impulse projection unless the target price coincides with something else important.

For instance when a market is advancing from a low price in a retracement of a previous range of larger degree a 1:1 projection may terminate on a 38.2, 50 or 61.8 of the range it is retracing. This could be a good reason to reverse position at the target price.



Situations like these are especially important to you because the other technicians in the market will see them and be prepared to attack the market at the time.

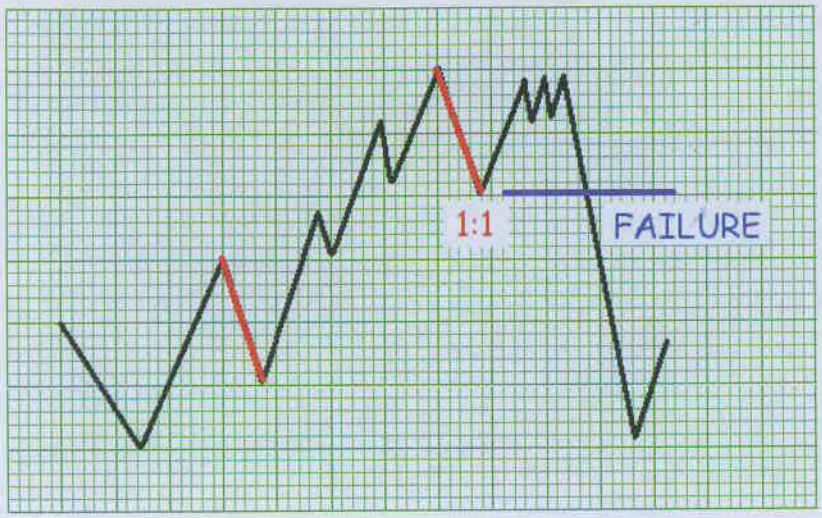
You will have to remember as I move along that many of the technical tools I am teaching you are well known to the top traders – when I say top traders I mean the guys who trade 1000's of contracts a week. The public have no chance at all when it is said and done.

The longer you watch the unfolding market each day you will realise that most of the things I am teaching you become self fulfilling due to the professional traders participation.

To become a successful trader is not just a matter of knowing technical analysis it is a matter of knowing what everyone else is up to. Understanding the potential strength of technical support or resistance levels on any particular day comes down to how the traders are reacting at those levels.

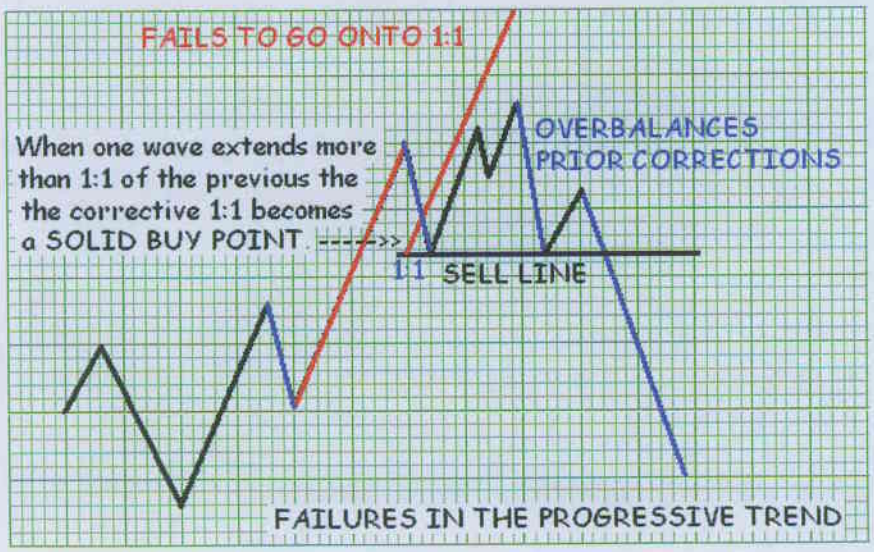
1:1 CORRECTION FAILURE:

It is amazing the little things that can provide SIGNS of what is likely to come as the day progresses.



This is a situation that could occur on a regular basis. The 1:1 correction has you believing the market will take out the current days high but something changes the minds of the players and the market can't do it. A break back through the 1:1 low is a SELL SIGN.

1:1 PROJECTION FAILURE:

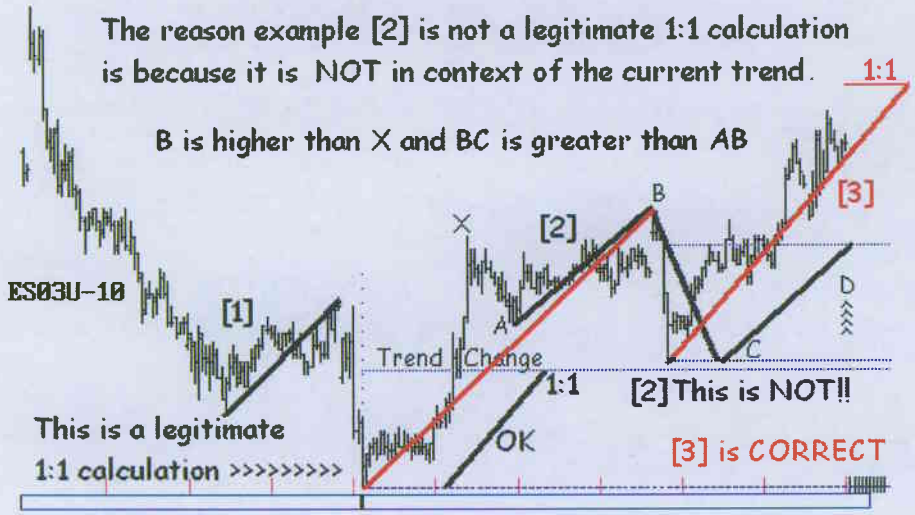

FAILS TO GO ONTO 1:1
When one wave extends more than 1:1 of the previous the the corrective 1:1 becomes a SOLID BUY POINT ----->>
OVERBALANCES PRIOR CORRECTIONS
1:1 SELL LINE
FAILURES IN THE PROGRESSIVE TREND

Every little thing that happens on the day is important to observe in this business. You could call this example an UNDERBALANCING MOVE in the next progression. The breakout of the high fails and the market returns to the prior support. This only holds temporally and then breaks for a SELL.

WHAT CONSTITUTES A LEGITIMATE 1:1 CALCULATION:

1. The 1:1 must be a correction in an existing trend in waves of similar degree.
2. The 1:1 must be an expansion in an existing trend in waves of similar degree.

In the example below you will see that I don't consider example [2] as a legitimate 1:1 calculation. The reason is the market was going up prior to the BC correction and the 1:1 being calculated is supposed to represent resistance for a correction level when the AB wave it is being measured off is expansionary. The two don't mix in my book.



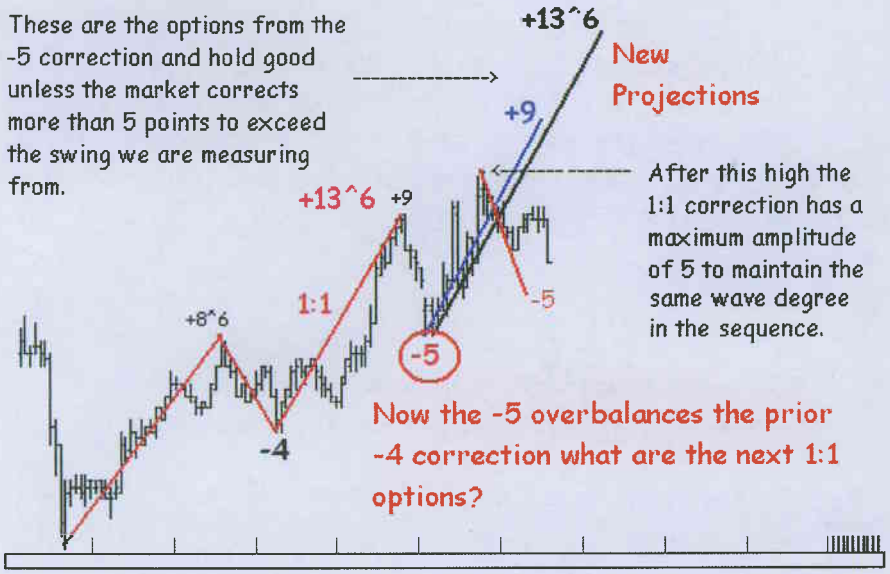
This view of mine may not make sense to some of you and I know that it certainly has a few of my students confused. In my opinion D could terminate on any ratio of AB in context of the XABCD relationships. A 1:1 is only one of the possibilities.

If you still don't understand the logic just take my word for it and don't use 1:1 calculations as shown in example [2] as it only adds another complication to your analysis and our best policy is to always eliminate what doesn't work for us.

Now I will show you some things in the lesser degree wave activity that occurred in the leg up that is projected as **[3]** in the example above.

At the time this happened in the market some of my students were a little confused as to which waves remained in the same degree and what actually constituted a valid price projection using the 1:1 rules.

All you have to remember is that as soon as a correction overbalances a prior correction the wave degree moves up a level. You can start another lesser degree 1:1 wave series but you need to also calculate the higher degree wave 1:1's as well.


These are the options from the -5 correction and hold good unless the market corrects more than 5 points to exceed the swing we are measuring from.
+13^6
New Projections
+9
After this high the 1:1 correction has a maximum amplitude of 5 to maintain the same wave degree in the sequence.
+13^6
+9
1:1
+8^6
-5
-4
-5
Now the -5 overbalances the prior -4 correction what are the next 1:1 options?

This is what threw the spanner in the works. The correction in progress in the chart above invalidated the –5 by declining –5^4 (two ticks more).

The correct way to handle this situation is this:

+15^4
+15^4
Lesser 1:1
LARGER DEGREE WAVE TO MEASURE
-5^4
-5
-4
Just as long as the new correction exceeded the prior corrections the DEGREE IN THE WAVES has to be raised for geometric reasons.

Just go with the FLOW one step at a time and don't confuse the issue anymore than you have to. Stick to the rules – some are easier to see than others but these examples are the way I do it.

Section 1: Chapter 8:

The 2 Day Correction Rule:

One of the most important mental trend filters I can teach you is the TWO DAY CORRECTION RULE.

In a trending market corrections to the main trend seldom last for longer than 2 days. They can also be one day only corrections if they are reactions to an explosive daily move.

So the thing to remember is that until a reversal to the main trend continues for over 3 days the original trend must be considered as still intact.

Even if the 3-day swing chart rolls from long to short or short to long the 2-day correction rule over-rides it.

If we look at the corrections in the S&P run up from the March 31st low to the June 17th high you can see what I am talking about. This trend remained up for 54 trading days with only one 3-day correction in the early stages.

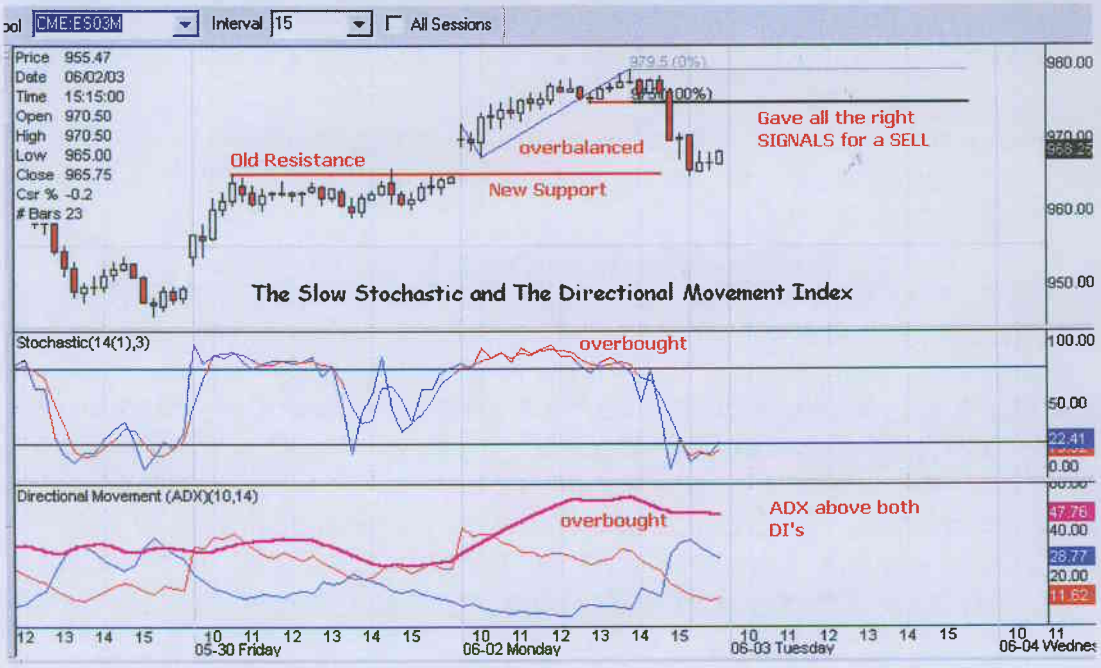
The bullish trend had clearly halted when we had more than 3 days down.

Since then until now the market has been backwards and forwards in a large trading range.

Maybe it is consolidating for a fresh break to new high ground or else it is grinding itself out for a fall. I'm not sure yet but it recovered in 2 days from a huge outside reversal day on the 22nd August which says something for it.

Section 1: Chapter 9:

Short Term Trend Indicators:



There are two indicators I always monitor as a filter to compliment trades that are going to be counter to the trend of the 3-day swing.

If you are contemplating a trade against the short-term trend, because you have identified a geometric exhaustion taking place, you should verify the potential using these two indicators.

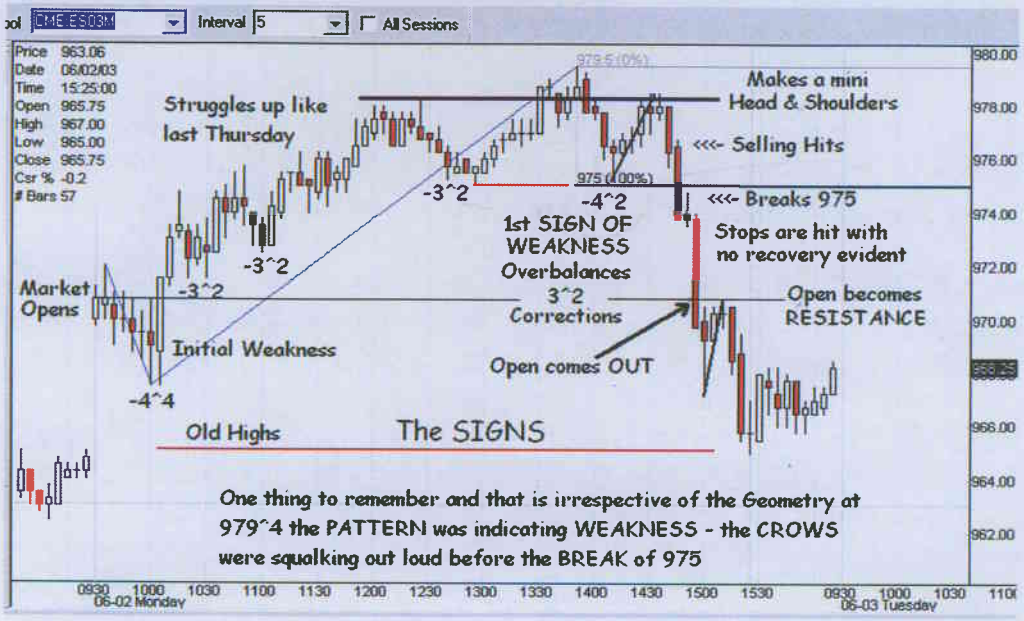
A short trade has more chance of success if the indicators have been working in **Overbought** territory.

A long trade has more chance of success if the indicators have been working in **Oversold** territory.

Today the best trade of the day was a counter-trend sell that set itself up perfectly. A line of logical support was formed at the 975 level. The Overbalancing rule was in play as demonstrated in S1C7. It was a foregone conclusion that the day traders stops to sell would be nested under the 975 level. The potential down was going to be good as the old resistance had become the new support and that was down at 966. As you can see from the illustration that is where the market declined to.

You should always have good reasons for trading counter-trend signals, I take them all the time but the conditions must be right.

When you take a look at this particular trade close up it was really a gift set-up that should never have been overlooked.



The PATTERNS the market makes could be compared to instruments in an airplane in that they warn you of the danger or opportunity that lies ahead.

You should study some of the SIGNS I have noted on this chart that led me to SELL the break of 975 when the oscillators were in agreement.

When all the signals come together TAKE THE TRADE:

The 1st rally of the day to B terminated on the 50% level up 8 points from the low indicating that there were plenty of technical sellers in the market today. After the 6 point correction that followed the market gained strength and rallied back up towards the current 61.8% level that was also on the 1:1 up (8x8).

As the market approached the 1:1 (8x8) and the 61.8 retracement level the Stochastic on my 5-minute chart was heading well into OVERBOUGHT territory adding extra information on the mental position of the day traders.

IT WAS A PERFECT SELL here I thought at the time – I can place a limit order to sell 2 ticks below the 61.8 and place a stoploss order 2 ticks above the 1:1 for a risk of 1^2 points. It was very straightforward at the time I figured.

The reason I use a little room on a limit order is to make sure you get executed. You can only SELL the BID so if the high tick finishes on an OFFER PRICE you will never get executed if you cut it to fine.

Incidentally the PIT traded contract made an exact 1:1 (8x8) on the 61.8 to demonstrate my point. There must have been plenty of professional traders ready to act on this signal when it came in. It was as clear as the traffic lights on every second street corner.

In any case my message here is to keep your eye on your Stochastic as you get near strong geometric points that have a reasonable expectation for an intra-day reversal in trend, it pays dividends.

You won't be the only one watching them 100's of traders will be.

Section 1: Chapter 10:

Reversal Bars:

One of the most important things a day trader needs to pay attention to is the 5-minute price activity, i.e., the high/low range and the direction of the price activity.

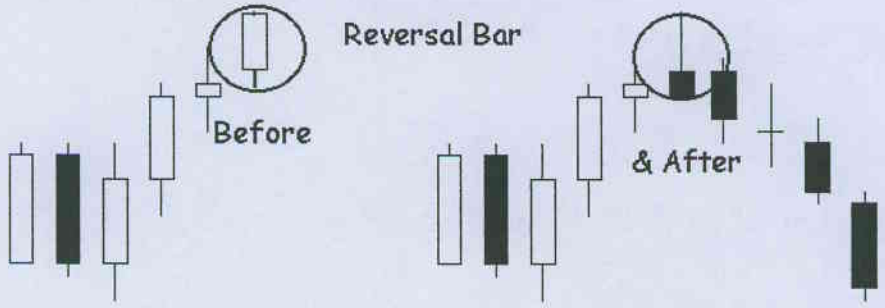
Each new chart bar is telling a story depending upon what went before.

The best way I find to visually follow the current market activity is by using JAPANESE CANDLESTICK charts. The UP BARS have hollow bodies and the down bars have dark or coloured bodies. Most on-line data providers allow you to set your own colours. I use WHITE bars for the UP bars and RED bars for the DOWN bars.

The examples in this book will show the DOWN bars as BLACK. The body of the bar denotes the open and the close and the narrow lines indicate the extremes between the high and the low.

TWO BLACK CROWS - 5 Minute Chart REVERSAL PATTERN:

This is the most important bar formation to be on the lookout for. In the case of an up trending move the market will make a new high and the bar will be white after the new high the body of the bar will turn black.

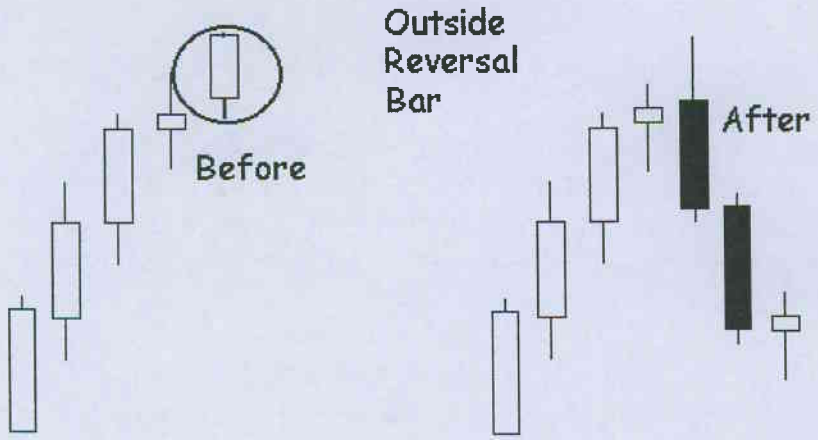


If you were watching this bar unfold you would first see it as all white as the new high was being made. By the time the market moved on to the next bar it had turned to a black body denoting a possible reversal in the price activity.

The bar following the reversal could not regain trend and was also black bodied. This denotes a reversal and time to act to protect your position. Two black crows after a new high are the first indication that a short-term reversal of trend is in progress.

THE OUTSIDE REVERSAL BAR PATTERN:

This is the strongest signal for a temporary reversal on a 5-minute chart or major reversal if it occurs on a day only chart – the difference with this bar and the simple reversal bar is that the price range in the reversal bar is both higher and lower than the preceding bar and the CLOSE of the bar is lower than the low of the prior bar.



Once the low of the prior bar to the high is broken it is time to act, don't sit on your hands to wait and to see, you already know an Outside Reversal Bar is forming. If it does then the odds of a further decline are 10/1 on.

WHITE BARS V's BLACK BARS:

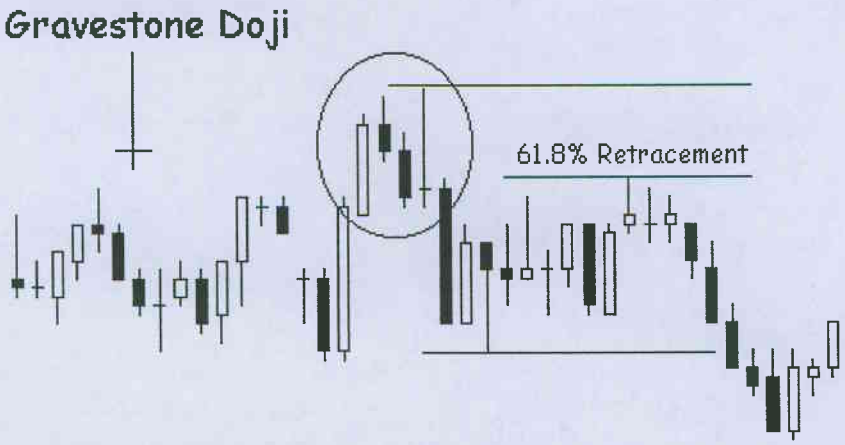
Visually the mix between the number of White bars versus the number of Black bars keep telling you the state of the trend.

Two 5 minute black bars in a row usually signal a correction in a bull trend, two white bars in a row generally tell you the correction is over. You can reverse the process in a bear trend.

GRAVESTONE DOJI:

This bar could occur on its own or it could confirm a reversal pattern. In this example the Gravestone Doji followed a standard reversal pattern.

At first the market looked like it was reversing and then it attacked the high again, exceeded it and then failed. This showed the conviction of the sellers at the time and the fact that there were no buyers around to take the market higher.



Even if you did not see it when it happened the 61.8% retracement from the first decline provided a "set up" situation for a good chart reader.

Once the market has demonstrated a reversal of the short-term trend you normally always get a second opportunity, either at a 50% or a 61.8% retracement. You can sell into the strength with limited risk.

DOJI BARS:

There are several types of DOJI PATTERNS but the main character of them all is that they OPEN and CLOSE the bar at the same level. Theory is that they are indicating indecision between the buyers and the sellers.

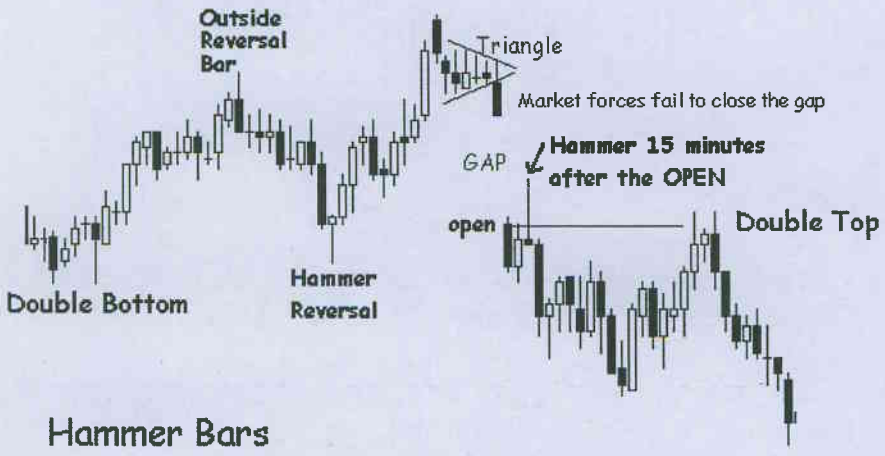
HAMMERS:

Hammers are similar in a way to the Gravestone or the Hanging Man Doji – the only difference is they have a head like a hammer.

Nevertheless they can be the first sign of exhaustion to the current thrust.

It is nice when you see a HAMMER on a false break of a MOB, i.e., when the market price penetrates a MOB level by a couple of TICKS and then reverses leaving a HAMMER BAR or a bar with a long reversal leg. Even a HAMMER on any new low or high in the intra-day 5-minute chart is a SIGN that the hammer impulse has potentially stalled.

Whenever you reach the vicinity of a pre-calculated MOB (Make or Break Level) you are looking for SIGNS of resistance or support for a reversal to occur.



Hammer Bars

You are not going to see every small reversal conform to standard reversal bar theory but you will see at least 50% of reversals terminated on BARS similar to the ones I have mentioned here.

These BAR patterns are an indicator of the current to the minute trader interest - never forget no matter what your overall opinion of the market direction is it is only the traders who take it from one level to another.

Significant intra-day SIGNS for the professional day trader are: -

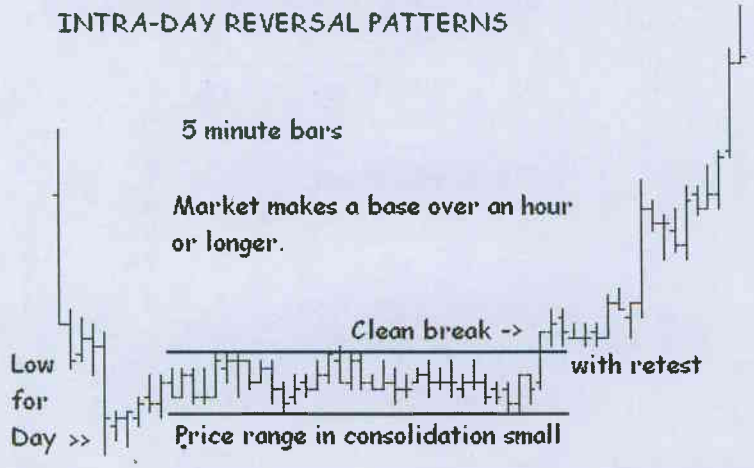
1. Double Tops
2. Double Bottoms
3. Outside Reversal Bars
4. Gravestone or Hanging Man Doji's
5. Hammers

Section 1: Chapter 11:

Reversal Patterns:

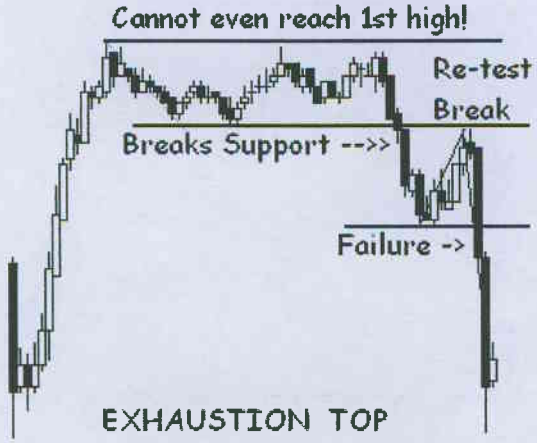
Identifying the potential of patterns is paramount to your success as a trader.

Tops or bottoms can form numerous types of patterns that lead to a daily reversal of trend.


INTRA-DAY REVERSAL PATTERNS
5 minute bars
Market makes a base over an hour or longer.
Clean break ->
with retest
Low for Day >>
Price range in consolidation small

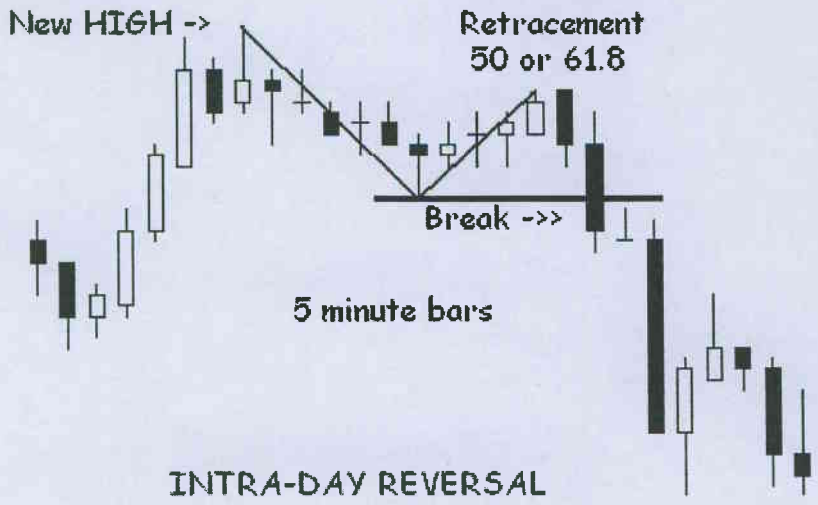
These are common and normally occur when the top or bottom is not on a recognisable price retracement level to a prior larger degree range.

In the case of a bottom it first looks like a continuation RECTANGLE in the making but the bottoms of the rectangle do not come back to the original low and in fact what happens is a bullish rectangle forms. This infers that the market is consolidating or forming a base from which it can make an advance back up. This top formation could not get back to the first high to form a rectangle and the two black crows before the break of support indicated that the breakout could succeed.



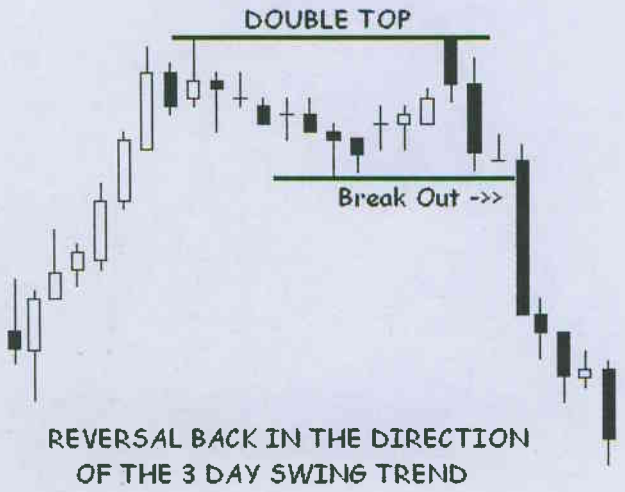
INTRA-DAY TOP OR BOTTOM
Followed by a 50 or 61.8 RETRACEMENT:

The weakness in the market at a new high is evident by the precise retracement, as the sellers have congregated there in force.

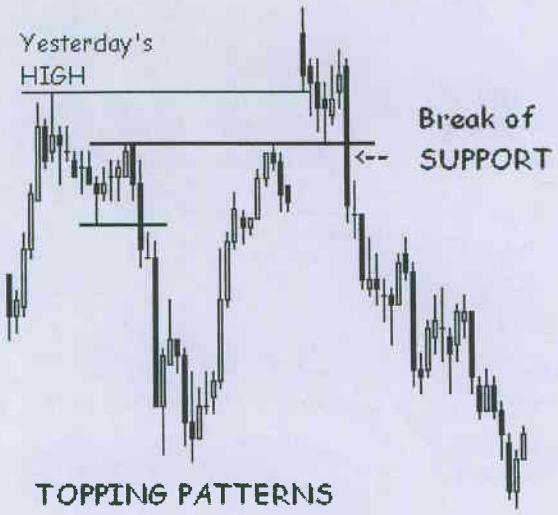


INTRA-DAY DOUBLE TOP OR BOTTOM
Followed by a BREAK OUT:

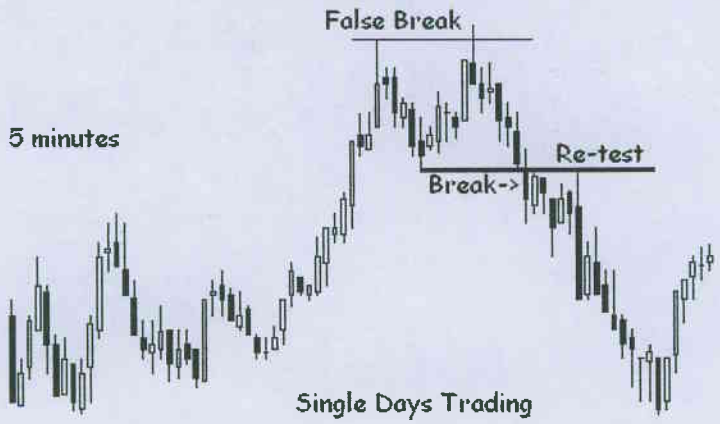
Double tops and double bottoms will have more potential for profit if they are a reversal back in the direction of the daily trend.



TOPPING PATTERNS:



The common theme of a topping pattern is that it will make the top then retrace back to a recognisable line of support. It will then attempt to get back into trend and fail. The failure point is the place to sell because by the time the market fails negative opinion will be in the minds of professional traders and the move will be fuelled by their participation.



In cases where the market tries to break to a new high and can't continue on, the line of support becomes the last correction low before the new high.

In all cases you cannot be sure if the market will make a re-test of a break out so you must take the trade on the 1st break. If by chance you get a re-test and the trend looks like it has changed to down you can hammer it at the time. Of course this will depend on where the breakout terminated, i.e., was the new low before the re-test a known support point.

TOPPING PATTERNS:

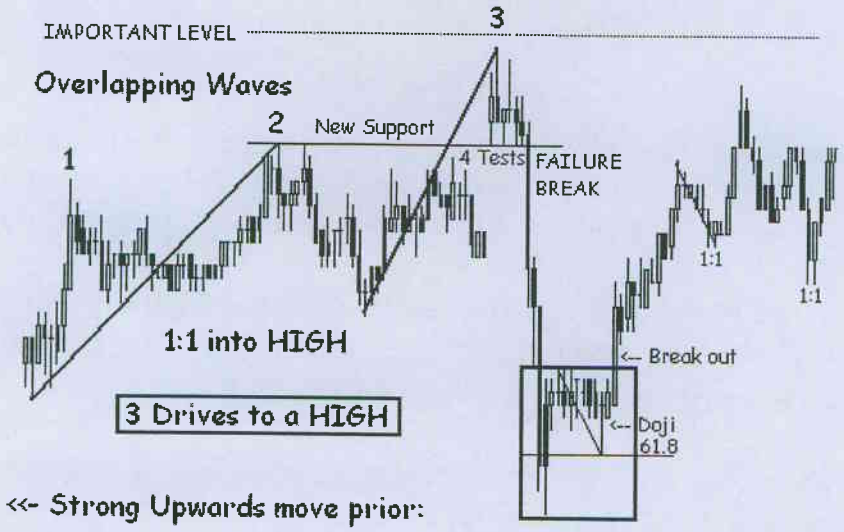
New High ->>
Lower highs
Should not be more than 1:1
Breaks Base ->
When a breakout comes back through the support line use the 1:1 rule to stay with the trend:

The novice usually has a problem with this situation. When the market breaks down only to return back as though it is going to be a re-test but it comes back above the base line. So long as the advance back does not overbalance a prior correction since the high was made then the trend is still down.

Every now and again strange things happen that do not conform to your expectations. As a trader you have to accept days like this when they happen. This day the market sold off early after making a new high then it formed a double top 3 ticks above a 61.8, the next leg down to the higher low did not extend as one would have expected and a rally back began which broke out of the double tops. One would have thought we were heading for a new high at the time!

The signal to SELL comes when the market breaks back through the double tops as this is the SIGN of a breakout FAILURE.

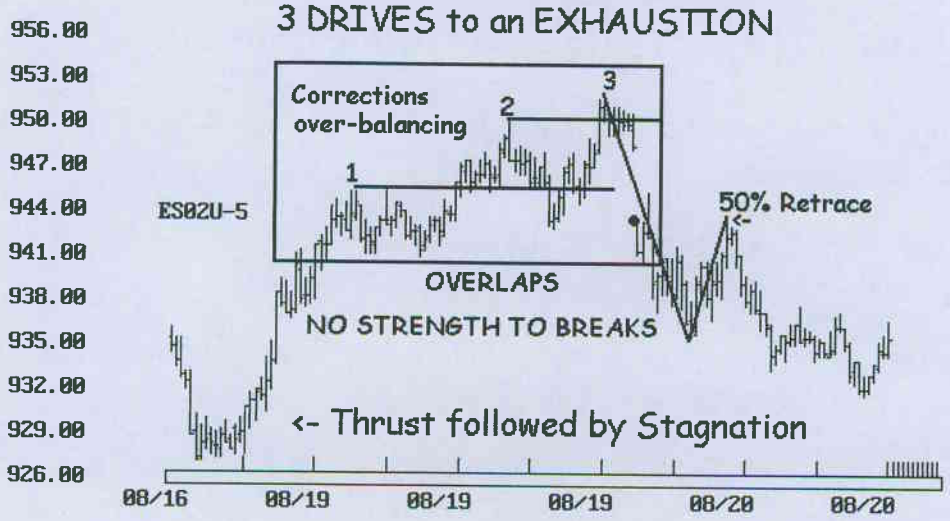
TOPPING PATTERNS:



Most professional traders are aware of this phenomenon, as it is a sign of short-term exhaustion in trend. You can observe this pattern in the INTRA-DAY price action better than anywhere else so it becomes a SIGN for you to watch out for when the market refuses to gain HARDLY any many more inches each time it breaks out to new levels.

3-Drives into an exhaustion phase reversal should have OVERLAPPING WAVES in my opinion to show the exhaustion process.

Once you get the washout the market could recover fully on the day or it may continue into a two-day decline.



This pattern is more likely to occur at new highs in a bullish trend but it can still occur in an upward correction to a prior decline. The EXHAUSTION process becomes obvious after the correction to the 2nd high.

Trading these patterns:

As you learn to read the patterns - taking trades at the right place becomes easy.

The market price is always working to the strength or weakness of the buyers or sellers prepared to commit to the current trend – nothing more and nothing less. When support breaks SELL; when resistance breaks BUY.

If the market is going up you buy it; if it is going down you sell it. That is all you have to remember once you can recognise the patterns.

Impress in your mind that the chart patterns are telling you a story of the relationship going on between the buyers and sellers and their strengths and weaknesses. When one side is vulnerable to a hit by the other side – each side will know it and basically what happens is a capitulation by one side. It might only be for 5 or 10 points but if you have a 10 lot trade on that can add up to a good pay day.

Once you learn to read the patterns you can call yourself a trader.

Understanding pattern is the first thing you need to learn to become a successful trader everything else I am teaching you is secondary to your continuing success. I could trade off pattern alone without knowing anything else. The pattern is the markets footprint.

SOME IMPORTANT THINGS TO REMEMBER:

When the market goes up in a hurry it can come back down in a hurry and vice versa.

When the market is moving in tight ranges then expect the tight ranges to continue and take on a scalping stance or stand aside.

Always consider the market volatility before you start hanging into a position and going for the HOME RUN hit.

The market is not dissimilar to a bouncing ball most of the time. The rises and falls are accentuated when the NEWS FACTOR really spooks one side or the other.

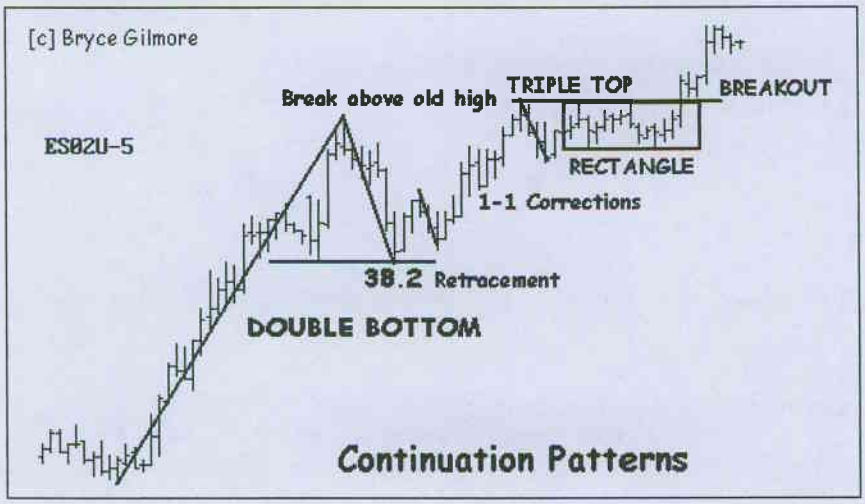
Section 1: Chapter 12:

Continuation Patterns:

Identifying the SIGNS that infer a continuation of trend is enough on its own to make you money.

The market pattern will unfold in such a way that it infers the current trend is still intact.

When you recognize the signs you can enter the market with a close stop loss each time it moves into new territory.

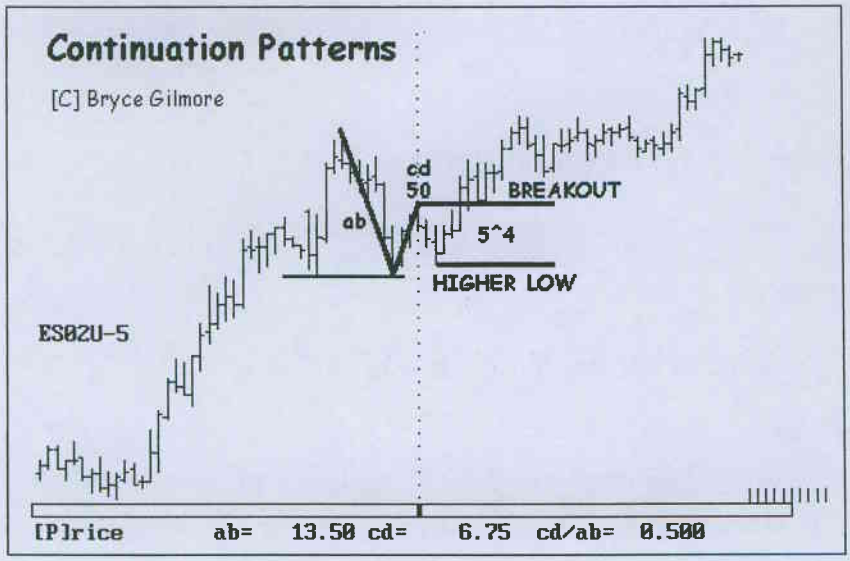


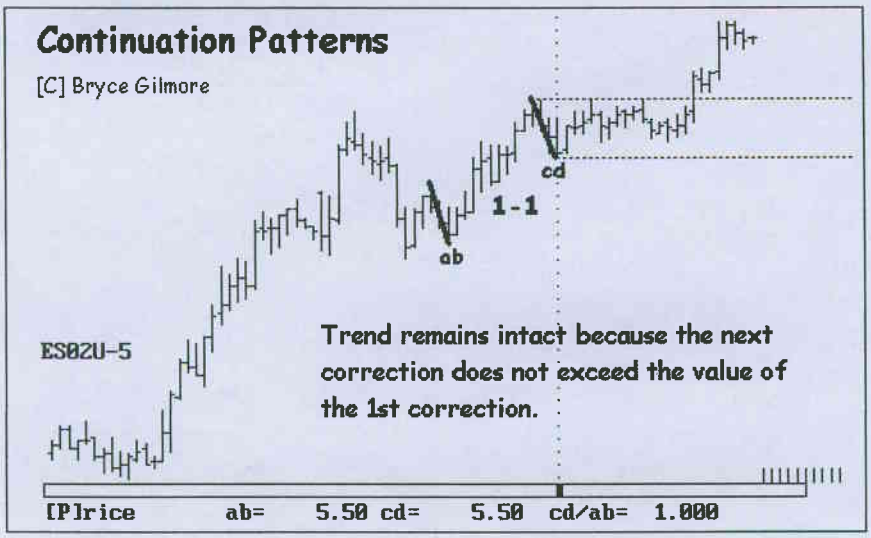
Support on the 38.2 retracement is a sign that the trend is strong and while the 38.2 remains intact and the market continues to make HIGHER LOWS it is indicating the direction is intact.

In this example the wave up after the 38.2 corrected at a 50 minor degree retracement to the move down. The following push back down terminated by making a HIGHER LOW.

The 1st SIGN after the 38.2 retracement of the continuation came when the market broke above the minor 50 retrace. The depth of the retrace after the 50 retrace now becomes the benchmark for any further corrections. For the trend to remain intact, in the same degree, any subsequent corrections to the upside movement should not exceed the length of this 1st correction.

After this 1-1 alternate wave correction, which was also a 38.2 retrace from the double bottom the market went sideways for 75 minutes.



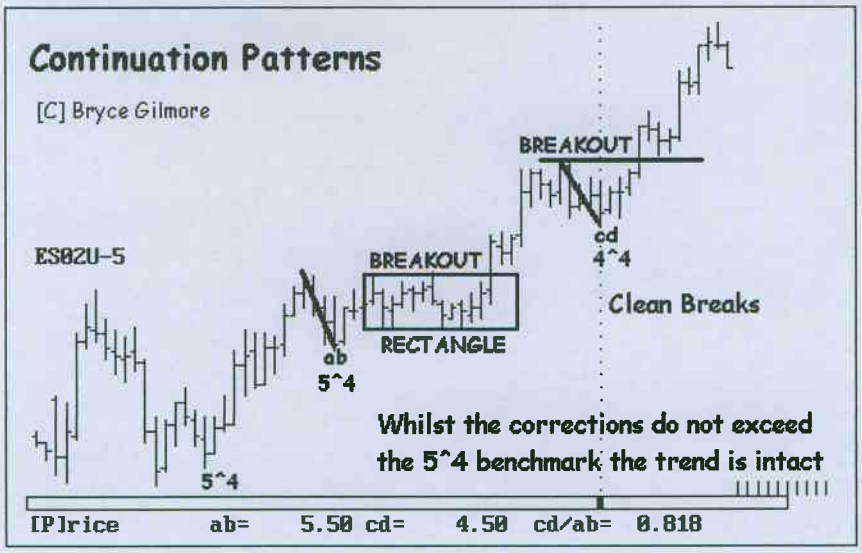

Continuation Patterns
[C] Bryce Gilmore
cd
1-1
ab
ES02U-5
Trend remains intact because the next correction does not exceed the value of the 1st correction.
[P]rice ab= 5.50 cd= 5.50 cd/ab= 1.000

The unfolding pattern produced a triple top – this occurs through the actions of the day traders selling the prior highs. You can tell that their efforts were not getting any follow through by the shallow depth.

After the 3rd top the market received support at the level of the reversal after the 2nd top. Confirmation of the continuation came when the market broke out through the tops of the rectangle that had been formed.

The ultimate end to this rally will be determined by geometry in the larger picture.

When we get a correction greater than 5^4 points it is time to look for selling opportunities. The first warning will be a correction that is greater than the latest 4^4 point correction.

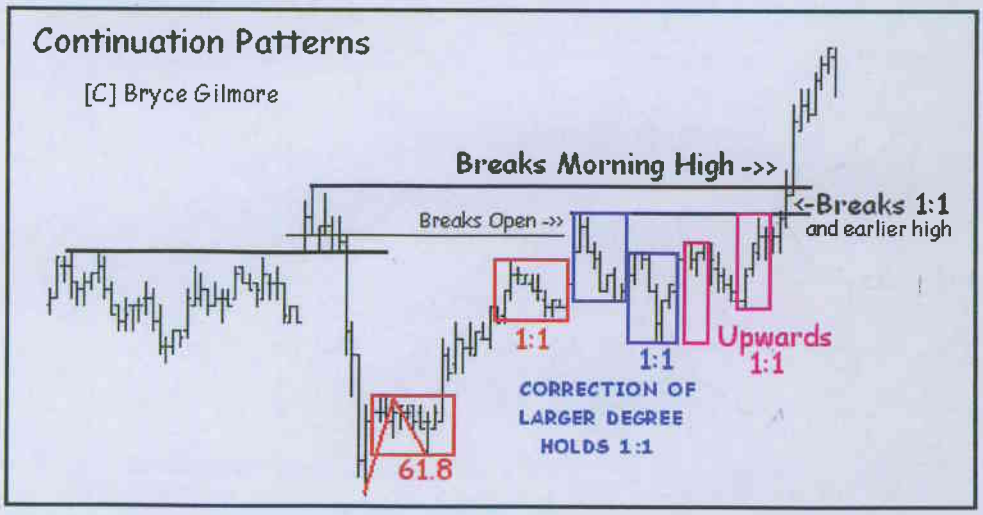


Confirmation of a reversal to this uptrend will be the market price crossing back over all the breakout levels we have made on the way up as well as exceeding the original 38.2 correction of 13^4 in the larger degree.

Our guidelines are clear – if we follow them the market will leave the SIGNS to guide us.

So let's recap what we should have learnt so far in this chapter:

1. CORRECTIONS should not get larger in an ongoing trend of similar degree.
2. 38.2% retracements are an indication that the market is in a continuing trend.
3. RECTANGLES are a sign of a further continuation.
4. Buy the BREAKS if the trend appears to be in a continuation pattern.
5. Buy any retests of the BREAK OUTS with close stops in a continuation pattern.
6. The CONTINUATION PATTERN is intact as long as the market does not overlap prior BREAKOUT levels. Breaks should be clean in a continuation pattern.
7. We can use geometry to establish price targets.



Here is an example of a continuation pattern that developed after a sharp correction began on the release of a 10:00am report. The report wasn't that bad it just came in as unchanged when there was an expected improvement.

After the fireworks subsided the 1st rally was retraced 61.8 and the 61.8 was made on a 5 minute Hammer or Doji bar. A breakout up then succeeded into the zone where the market had previously broken down from. The following correction was identical in length to the 61.8 correction registering a 1:1 with it. The next rally high penetrated the opening range before making a 1:1 (in blue) balanced correction of larger degree. The next advance when measured off its correction low to 1:1 (in purple) came out as a double top. Theoretically this was a Sell point in my book but it did not work and the market broke up and through the morning high signalling a CONTINUATION and a BUY.

The moral to this is if you work the guidelines I am showing you then you will know if the technical position is continuing to be strong or weak. The worse case scenario on the day was you had to buy the breakout of the morning high when it came. But there were several other trades before that which stood out using my methods.

BEAR TREND CONTINUATION PATTERNS:

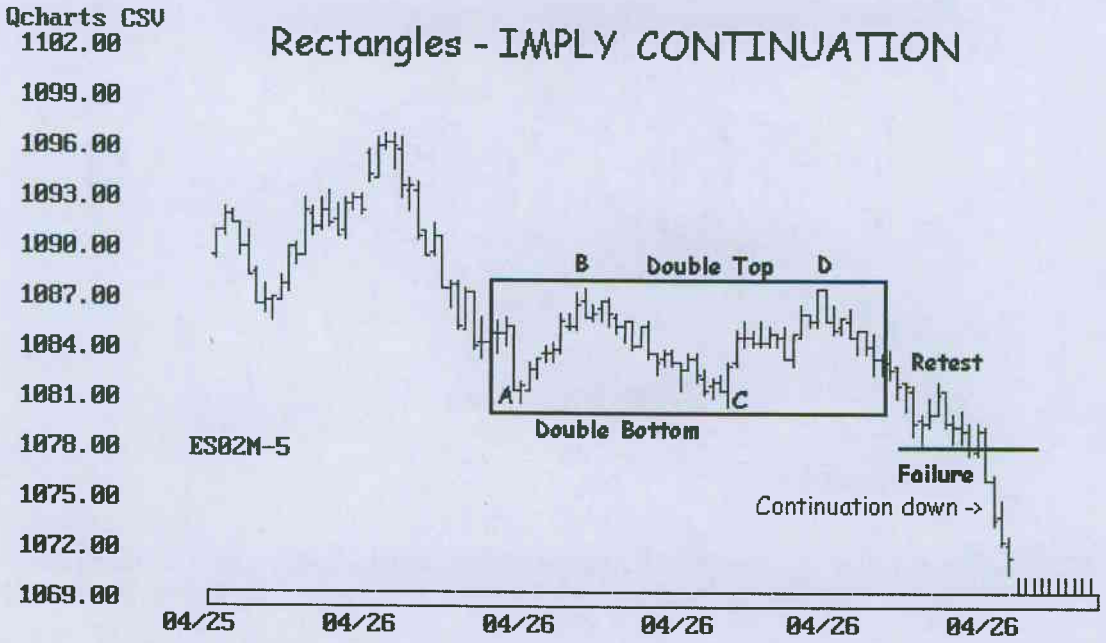
The same principles apply to bear moves the only difference is that the declines will be swifter.

As the decline continues the corrections should not exceed the prior corrections – a double bottom followed by a correction greater than a prior correction is a sign of at least a temporary reversal in trend. Once the market begins to overlap prior correction highs the trend has changed or it is returning to a congestion pattern.

LARGE RECTANGLES:

From time to time you will notice that the market gets caught in a BOX like pattern making a series of tops and bottoms that are equal. This is known as a rectangle and in charting terms implies a continuation.

Continuation means that whichever direction the market entered the rectangle in the first place it will exit it in the same direction.



Once the rectangle breaks for the first time you can expect a retest of the break.

The retest leg should not retrace anymore than 38.2% the length, of in this example, D to the failure support level and then the continuation should be certain.

On the next break of the failure support level the break should be clean and keep going.

Once the breakout occurs in the first place it is implying a continuation – it is just a matter of time.

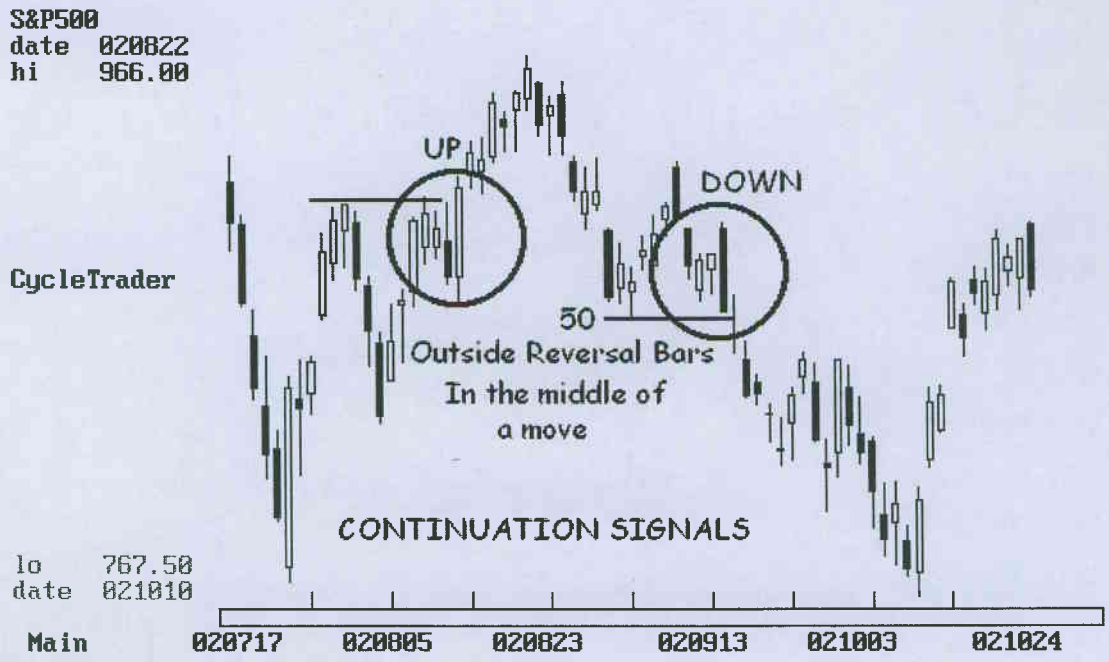
Once you can identify technical buying or selling off specific levels the whole approach to making your next trade becomes easy. You already know that when these levels fail the traders on the wrong side have to take evasive action, and help push the market in your preferred direction.

This is the same for all consolidation patterns.

CONTINUATION BARS:

The strongest single signal for a continuation of trend is the outside reversal bar in the direction of the prior trend.

These signals will apply to all time frames.



In both these examples the market had either overhead resistance or underlying support basis the previous nearby highs or lows in the moves to date.

The outside bars were a sign of power and suggested that the breakouts would succeed.

The market is always sending you SIGNS.

The first example on the UP shows the market reversing early on the 3rd day down from a double top. It actually turned the 3 day swing initially but this signal was negated by the higher close at the end of the day as the 3 day swing remained up.

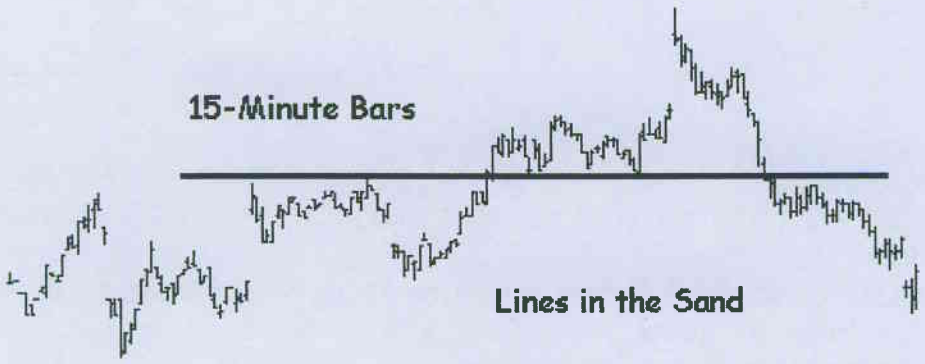
The second example on the DOWN also penetrated the 3 day high but this signal was negated as a swing change because the market closed outside the 3 day range and still on the DOWN. This outside bar held above the nearby breakout zone on the day which was not surprising as the breakout low was a major 50 of the waves up to the August 22nd high 966. The next day the market broke through the 50 and on it went down.

Section 1: Chapter 13:

General Pattern Tools:

LINES IN THE SAND:

The E-Mini can from time to time draw lines in the sand over a 2 or 3-day period. Lines in the sand can also form over many days. First the line is drawn as a resistance level then, sooner or later the market breaks through it and then keeps returning to that level, the level has now become support. What happens at first is that traders keep selling off the level and afterwards they keep buying off it. The line in the sand becomes the balance point and any break either side of it signals a buy or a sell.



HIGHER HIGHS with HIGHER LOWS:

When you look at a chart you should see immediately if the current chart pattern contains higher highs with higher lows, if so then visually the TREND is UP and should be considered up until such time as it starts breaking back through the swing lows. Old swing highs will offer initial support.

LOWER HIGHS with LOWER LOWS:

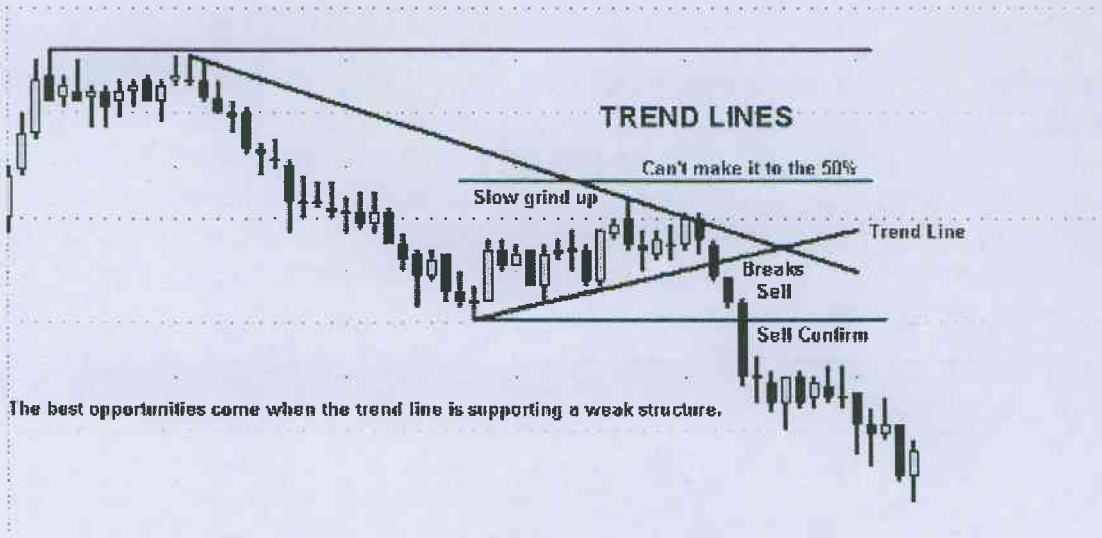
The same thing in reverse to the above, Lower highs with lower lows indicate a strong trend down is in progress and until the market begins breaking back through previous swing highs the trend remains down. Old swing lows will offer initial resistance.

There is much to be learnt simply by visually examining the chart.

TREND LINES:

When everything else is not clear you should always revert to enclosing your current pattern inside trend lines.

A trend line is drawn up or down using price extremes.



If you are unsure of the price relationships and you ever need to base your analysis of trend on simple parameters you can use the trend line approach.

TREND LINES act as a broad guide to the general market direction, they also help to keep your mind thinking about which direction offers the best trading opportunity.

It always pays to remember TREND LINES were made to be broken. They are most likely to break when they are supporting a weak market structure such as in this example.

A popular theory amongst traders is that often when a trend line is broken the market will return to the level of the initial break. I have found this to be an old wives tail.

Some traders will buy or sell on a test of the obvious trend line and place their stoploss some points away on the other side of the trend line. If the trend line breaks they will take a reverse position and then use the trend line as a guide to market strength or weakness. Sometimes the market will come back to test the break of trend line similarly to the way a market breaks a high or low and then comes back for a retest of the break before resuming the trend it has just begun.

It is handy to know these things but I only trade off trends lines when the market is showing obvious signs of exhaustion.

TRIANGLES:

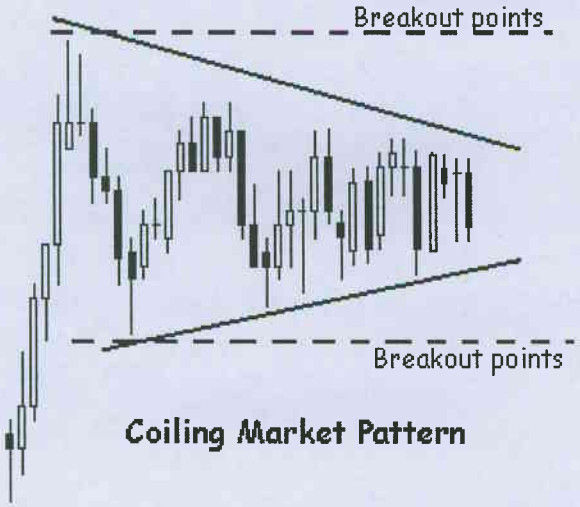
Symmetrical Triangle or Coiling Pattern:

The symmetrical triangle is a pattern formed in a trend where the market goes sideways for some time making lower highs and higher lows.

Another description we have for this phase is **COILING**, that is the market is building up energy to go somewhere.

The longer a market spends COILING the more unpredictable the ensuing move will be. The reason is that all the participants, both long and short, are getting nervous about the future direction and preparing to bail out if their position goes the wrong way on them.

You have to ALWAYS remember that the reason markets move one way or the other is because one side is capitulating. Triangles form when buyers and sellers are in a state of balance.



Coiling Market Pattern

Edwards and Magee would say that this pattern infers a breakout will come to the upside. My experience tells me that you could expect the market to go either way.

Once enough time has passed from the original thrust, which occurred before the congestion began, any momentum the market had one way or the other has been dissipated. Better to be out and wait for a confirmation breakout.

There are various descriptions for triangles and each has a different implication. Personally I think that when triangles begin to form they can be misinterpreted and just continue as enduring range congestion. **Triangles are more reliable in fast moving markets.**

ASCENDING & DESCENDING TRIANGLES:

Ascending = Flat top with ascending bottoms.

If the ascending triangle occurs in a fast moving market the higher lows are an indication of the breakout potential.

Any move exiting a triangle should have some separate form of identification to confirm market direction, i.e., the ascending and the descending triangle have the double top or the double bottom break as a form of confirmation.

The descending triangle has a flat bottom with lower tops.

The lower tops imply weakness so you would sell on a break of the double bottom, when the market confirms a continuation. If the market were to go up you would buy only when it gets out of the area where it could still be forming a rectangle.

Section 1: Chapter 14:

Gaps, Gap Reversal Days, Average Daily Range

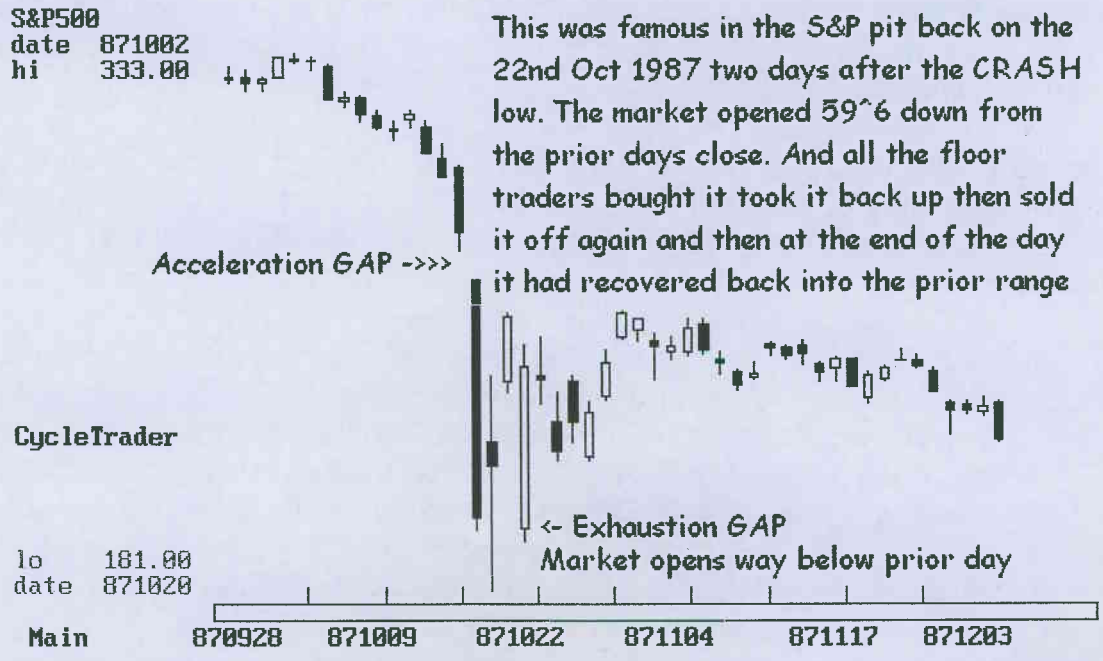
GAPS:

Years ago in the days where we had restricted trading hours, i.e., when the markets were closed overnight the gap theory probably had more relevance.

A GAP occurs where the market opens the next day outside the range of the previous day.

There could be a number of reasons but the major one was that some news had entered the market in the after hours and caused traders to believe the market would be influenced to go up or down violently on the coming trading day.

Just before the daily opening of the market the market makers would make a call indicating where they were prepared to buy or sell, generally the call would reflect the buying or selling orders they held in hand prior to the open outcry.


S&P500
date 871002
hi 333.00
This was famous in the S&P pit back on the 22nd Oct 1987 two days after the CRASH low. The market opened 59^6 down from the prior days close. And all the floor traders bought it took it back up then sold it off again and then at the end of the day it had recovered back into the prior range
Acceleration GAP ->>>
CycleTrader
<- Exhaustion GAP
Market opens way below prior day
lo 181.00
date 871020
Main
870928
871009
871022
871104
871117
871203

The story behind it was that some large fund manager had placed an order to liquidate all his funds S&P positions on the OPEN as he was $100 million under water.

The order clerk sent the order to the floor prior to the open but no number of contracts was mentioned. This all happened 1 minute before the market opened.

The operator asked how many and the reply was, "sell as many as you can!"

Those in the "know" on one side of the pit were calling the market down 50 and on the other side of the pit those who didn't know of the sell orders were calling it unchanged.

Within 30 seconds to one minute the buyers on one side of the pit had cleaned out the sellers and took the rising bid across to the other side of the floor and then back again as they took profits.

As the story goes, as told to me by a Eurodollar trader, there were 21 new millionaires made in the first 2 minutes of trading that day.

GAPS TODAY:

Gaps today vary in significance due to many futures markets trading 24 hours. In fact if you charted the 24 hour data there would most likely be no gaps. Well there still could be in some markets as economic or production or crop reports are released at the market opening.

The real problem with the after hours markets is that everything is done on low volume. Which means that a minority opinion of where the market will go can be over ruled very quickly once the day session opens and more traders assume a different opinion.

The thing with LOCALS (these are the guys that trade off the floor each day providing liquidity to the market) is that they have a tendency to take on the orders coming from the retail customers because they think they can move the market the opposite way.

The situation in the S&P is unique to the S&P in as much as many reports are released at 8:30am ET an hour before Wall Street opens. The European markets are open and they have a tendency to reflect what they expect the US markets to do on the day. The early morning traders using the electronic GLOBEX trading medium can run the market up or down based on expectations of what they think will happen when the main outcry market opens. Valuations can move way out of sync with what traders like to call "fair value". FAIR VALUE is based on the physically traded stocks index.

FUTURES MARKETS can trade at a premium or a discount to the CASH MARKET. Futures markets will trade at a premium to the cash when the expectation is for the market to go UP. The reverse if they expect it to go DOWN. During the day it is important that you monitor the SPREAD.

The SPREAD be it a premium or a discount on the futures to the cash will provide another clue as to the future expectations of traders pushing the market in one direction or the other.

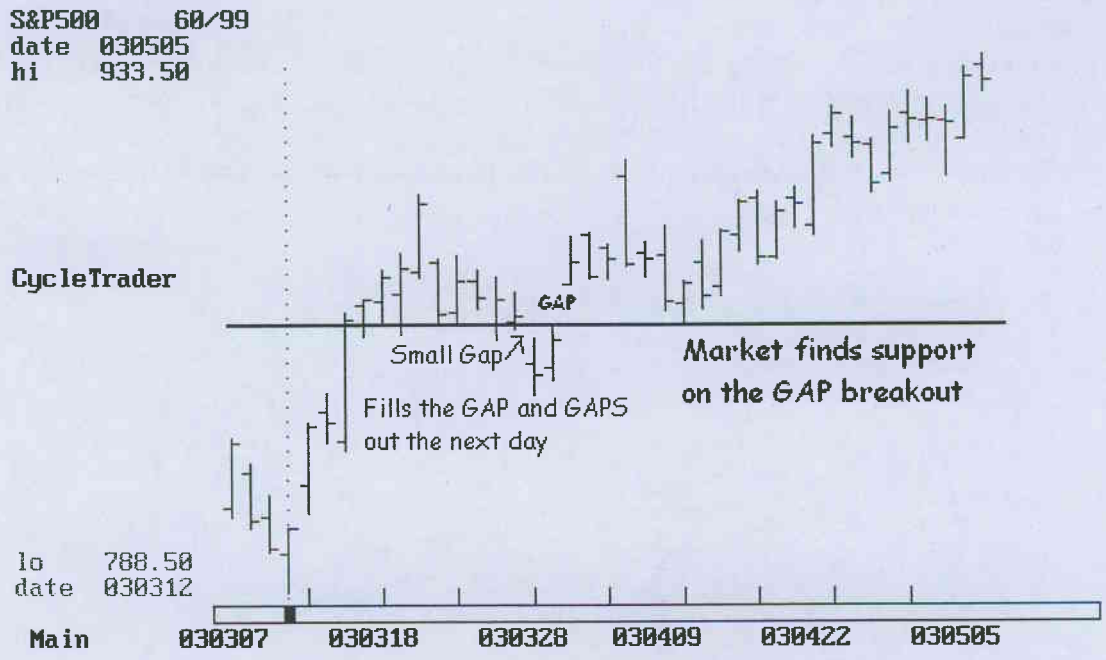
The reason is that large funds will often SELL futures before they dump their stock on the market as they know that dumping large quantities of stock will force prices down. They then sell their stock and buy the futures contracts back after they have it done.

Now back to GAPS:

When the market GAPS from the previous day there is a belief amongst technical traders that GAPS have to be filled. It is a psychological thing and that is all. But you will see it happen time and time again.

So what we get from this is that the level that fills a GAP can also be a decision point to buy or sell off. I'm not big on selling or buying the level that fills a GAP unless it is a recognised retracement level, Line in the Sand or a 1:1 level. Nevertheless it pays to think ahead when gaps appear on your charts.

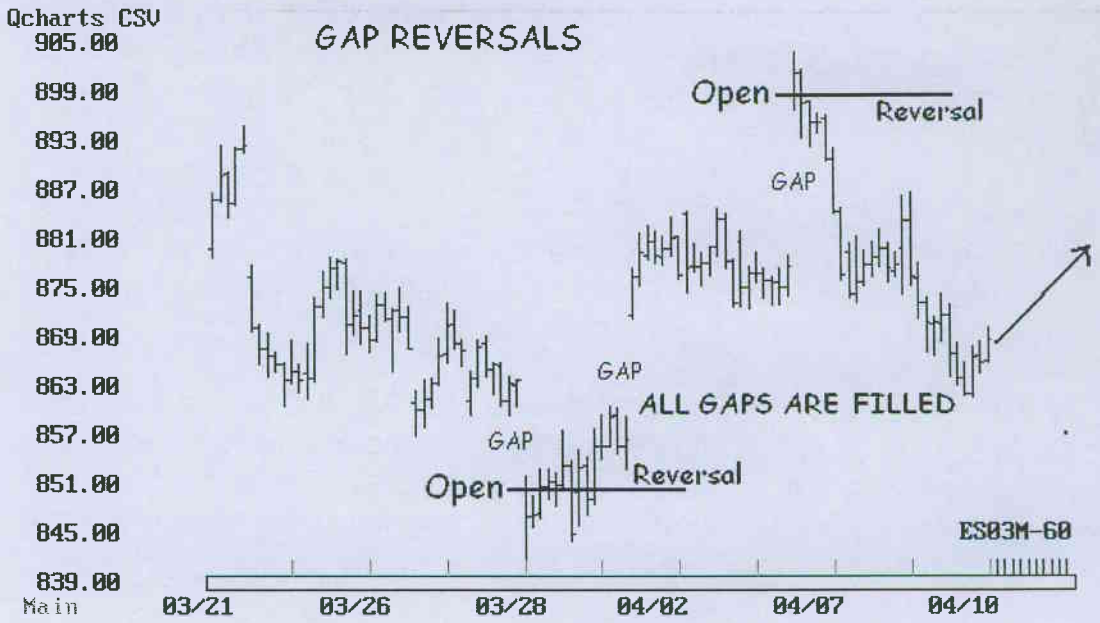
The best example I could give you is one like this.



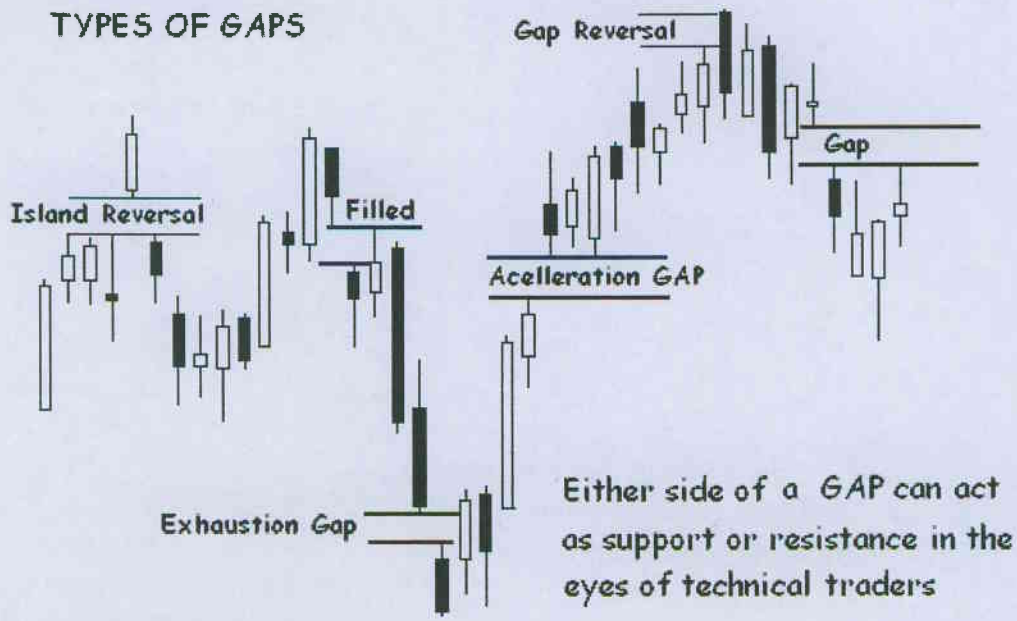
Now this is not a sure thing but it is a good example of the way traders act on mass because of their belief in the GAP theory.

On a day-to-day basis using intra-day data the GAP theory has to have a place in your thinking because it either tells you whether there is strength or weakness at that level. As each new piece of information is displayed on an intra-day chart you need to read the signs.

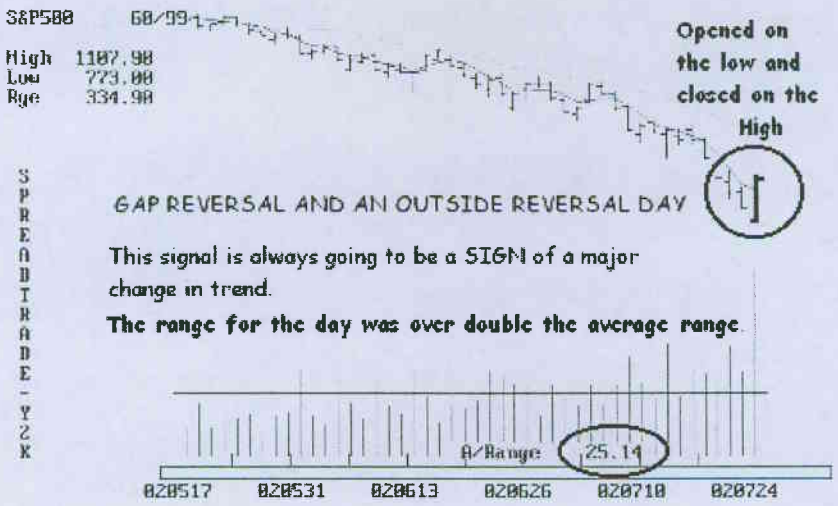
This is a 60 minute chart taken over the period where the GAP on the prior daily chart was waiting to be filled.



VARIOUS TYPES OF GAPS:

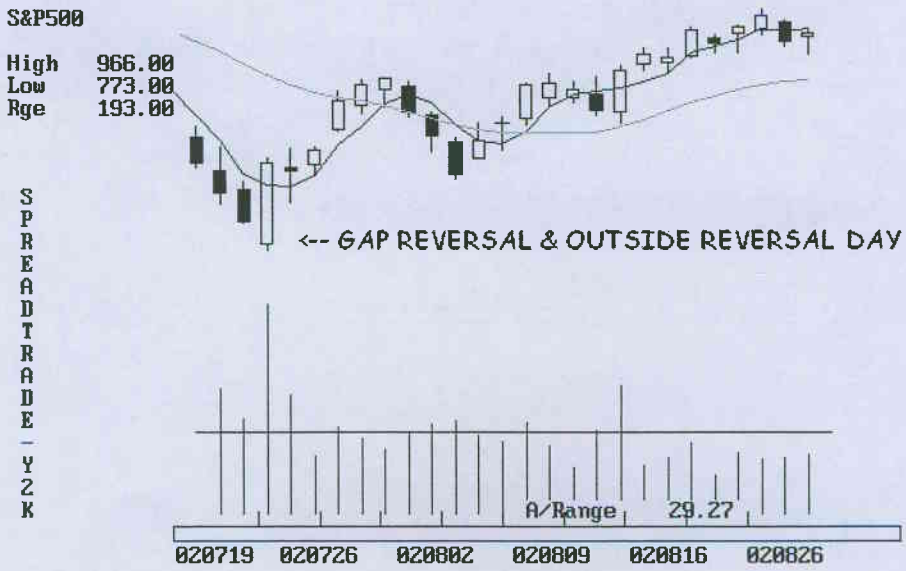


GAP REVERSAL AND AN OUTSIDE REVERSAL DAY:


S&P500 60/99
High 1107.90
Low 773.00
Rge 334.90
Opened on the low and closed on the High
GAP REVERSAL AND AN OUTSIDE REVERSAL DAY
This signal is always going to be a SIGN of a major change in trend.
The range for the day was over double the average range
SPREADTRADE-Y2K
A/Range 25.14
020517 020531 020613 020626 020710 020724

You are never going to see a reversal in trend signal better than one of these. When you take into consideration the magnitude of the days range compared with the average daily range you can see the magnitude of the swing in sentiment that took place on the day.

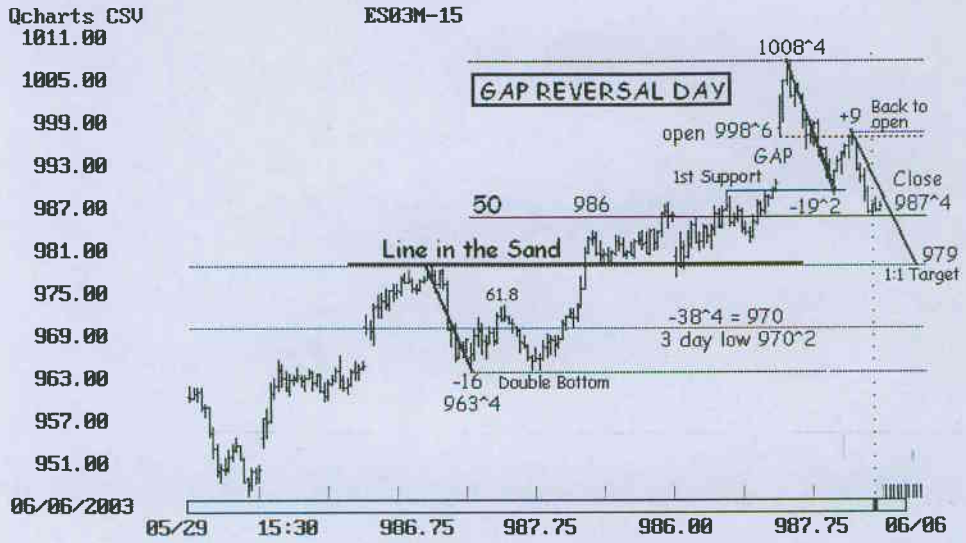
On this day the market was on a new all time low from the March 2000 high and the low for the day was exactly a 50% decline in price from the all time high. This is a common Gann support level. Technical buyers were sitting there prepared to buy and they did at the 50% discount to the high.



A Gap opening outside reversal day is the strongest technical reversal pattern.

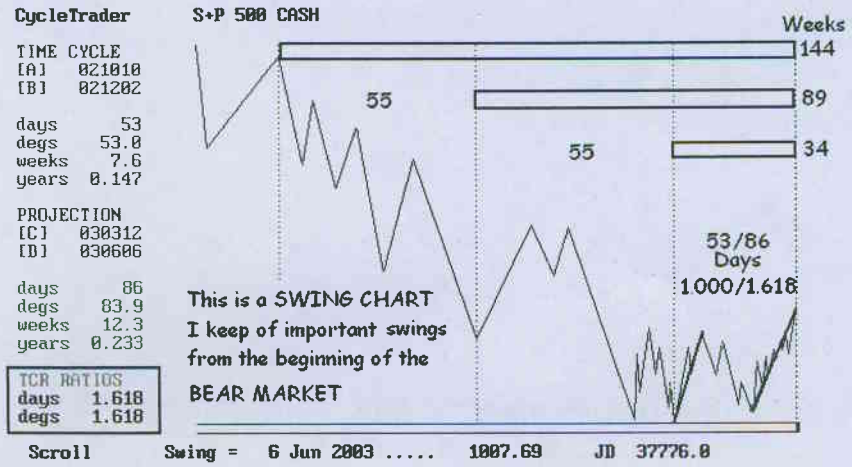
GAP REVERSAL DAYS:

This is an example of what happened to the S&P500 on Friday the 6th June 2003.



The market made a GAP OPENING even in the face of increasing UNEMPLOYMENT NUMBERS released an hour before the open. Unemployment had risen to 6.1% and the consensus was that this could have been expected at this stage of the forecast recovery.

The rally continued up to the 1008^4 level (7 times 144) before reversing, 1008^4 was 45 points up from the 963^4 double bottom of the 3rd June. The 1st impulse down filled the GAP and found support at the previous breakout high but 19^2 down overbalanced the prior corrections of similar degree indicating the market was in a weak position. The rally back up of 9 points could not get past the opening price and started down again finally terminating the down move for the day on the 50% level of the last wave of similar degree. The reason for the reversal could have been due to the time cycles present on the day – many informed traders knew of them.



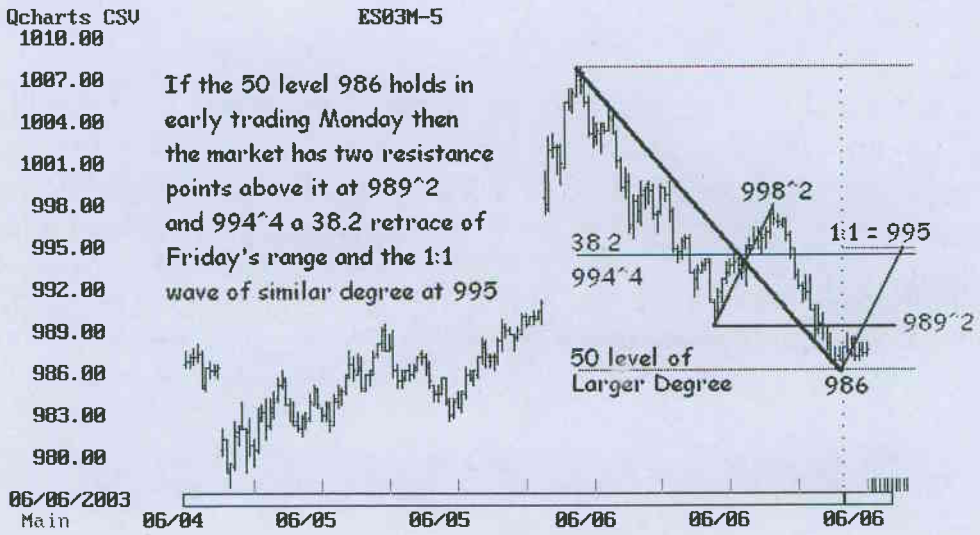
One thing to remember is that every ELLIOTTICIAN worth his "salt" was aware of these time cycles and they were forecasting in newsletters for a downturn to a heated market at this time.

I am not making any forecasts myself but to have an all round view of the market techniques that move markets is important to the professional trader.

The importance of a GAP REVERSAL DAY should never be underestimated as it sometimes holds the same implications as an OUTSIDE REVERSAL DAY.

As we move on from this market position all we have to do is follow the daily signals for guidance. Each day we will get confirmation or non-conformation that a high of some significance has formed.

I'll run you through the important things I will be looking at come Monday just to show you.

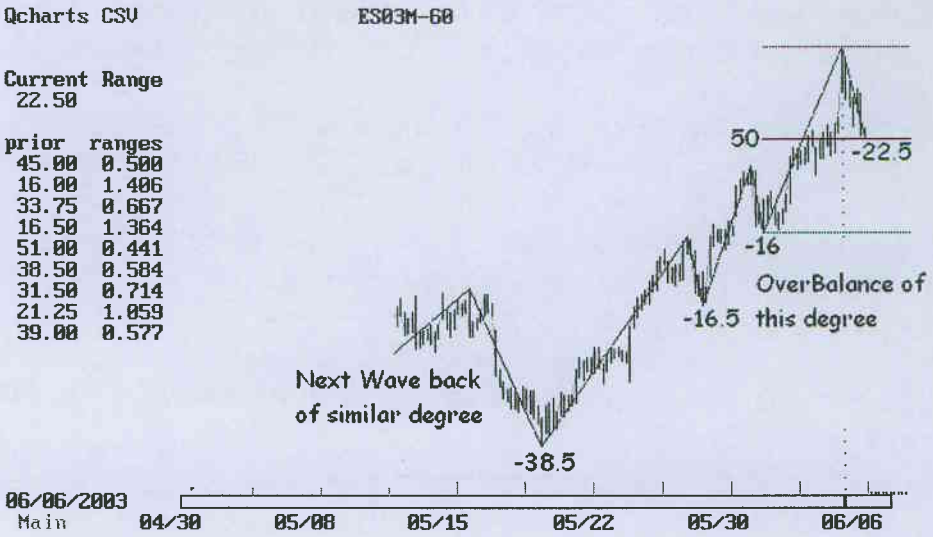


To negate the implications of the GAP REVERSAL DAY the market would have to trade above 998^2. To negate the implication of the TIME CYCLES the market would have to trade above 1008^4.

The next levels down that could act as support should the 50% retracement come out first thing Monday are : -

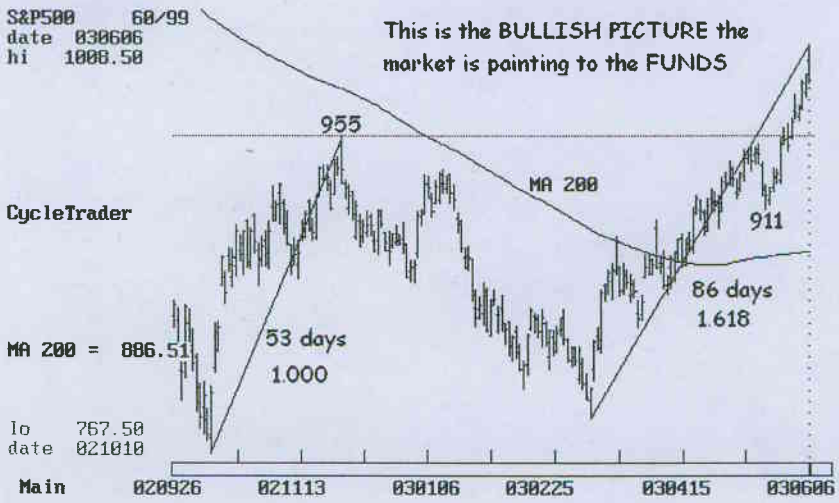
1. The LINE IN THE SAND level at 979.
2. The 1:1 of the 19^2 leg down at 979
3. Then equal waves down with the prior correction of similar degree, this is 38^4 down and lies at 970.
4. The three day low is also at 970^2

You can see these levels on the 15 minute chart I presented on page 68. If you prepare properly each day you will never be in for any surprises if the market does do something unexpected.



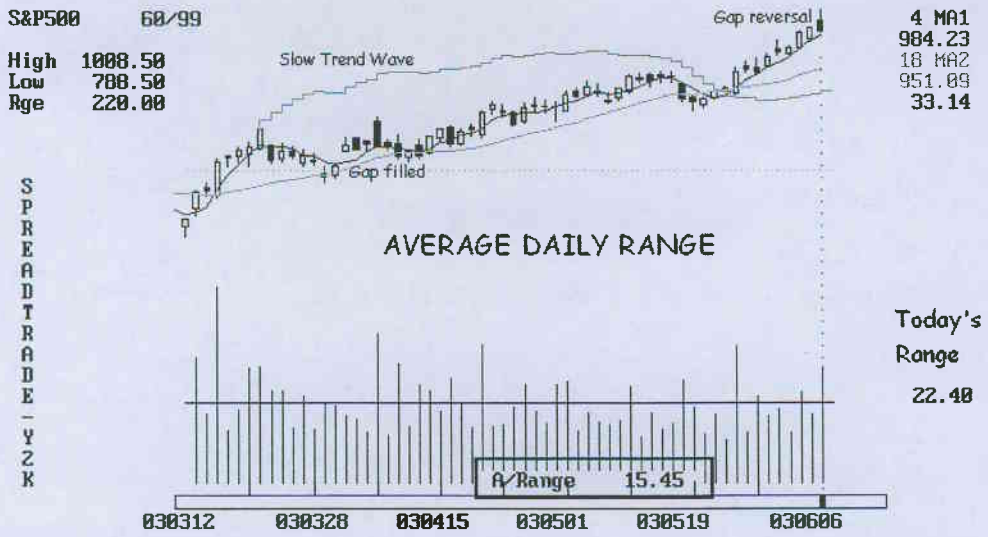
Here is a chart of the recent significant swings the market has made on the recent run up. This market would have to decline over 38.5 points and overbalance the last wave of similar degree to confirm a significant top.

Using my methods you will always maintain a flexible picture in your mind of what the market has to do to confirm what the current trend is and in which direction you should be trading.



From an analyst's point of view this market was considerably overbought at current levels. But it is still clearly in an uptrend. In the bigger picture 955 would need to come out to force you to adopt an overall bearish scenario.

AVERAGE DAILY RANGE:



The Average Daily Range over a campaign can give you an insight into what to expect on any given trading day. On days where the market trades inside the average daily range the speculator interest is usually diminished and the market is looking for energy to go some place.

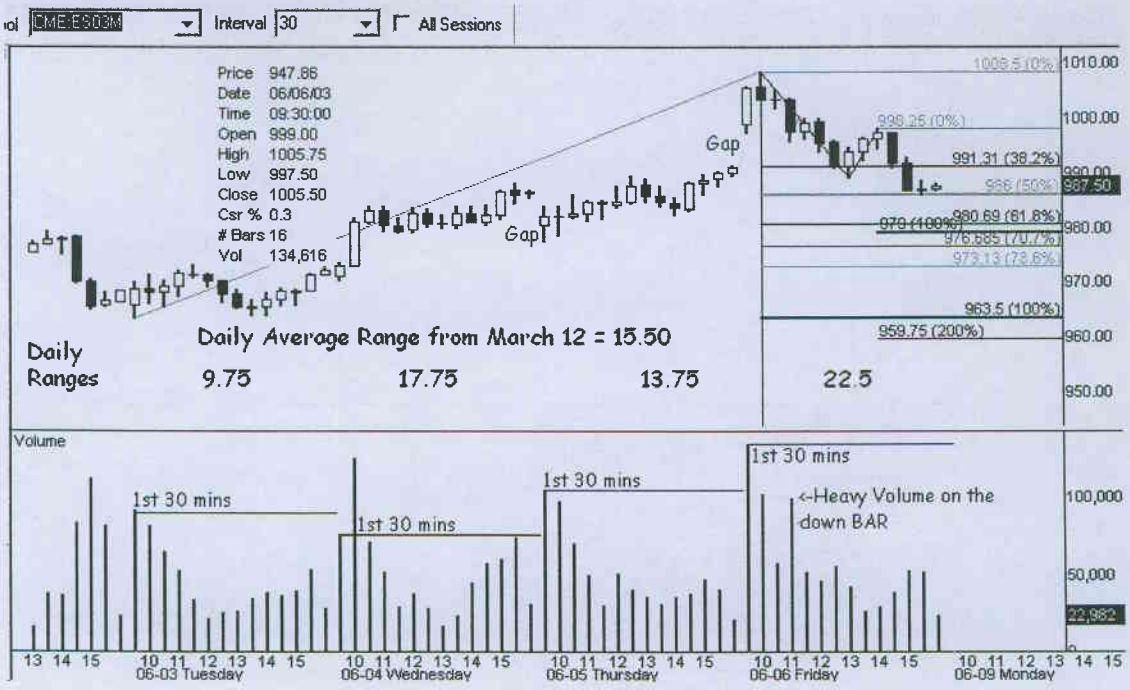
If you keep a monitor on the average daily range you will know if the trading environment is acting in a stable or erratic manner. When there is action the ranges will expand and offer greater opportunity to the day trader, this in turn will attract greater speculator interest. It follows that on large range days the volumes will increase so volume is your clue to whether today is going to be a large range day or not.

The hourly volume for the day in the 1st hour of trading is mostly always the greatest during each trading day so the clue is to monitor the volume from after the 1st hour. When you get higher than normal volumes in the 2nd and 3rd hours of trading it is likely that the volume for the day will be greater than average and that the Average Daily Range will be exceeded on that day. This will give you the clue to what the afternoon session may offer as if there are more traders taking positions early in the day then the more chance many of them are likely to be pressured one way or the other in the afternoon. This is just something to think about.

The more you think about what you are doing then the more SIGNS you can find to assist you in your decisions. The problem with most traders is that they forget many things that could be important to their analysis and only see them after the event. You have to keep going over the things you do day after day to keep improving yourself.

Every day you should review what you have done on the day, study the charts to see what you missed and learn from it. Each day you can get better!

VOLUME CHANGES:



Today I figured on the GAP REVERSAL before it was confirmed because I had all the information at my fingertips. At first it looked like an Acceleration Gap, but after the 10:00am bar was down and then the Doji bar came on the next bar it was time for a rethink. Then you can see the heavy volume on the 11:00am down bar you would have known that the early buyers were being cut to bits. The 11:30am bar made very little impression on the previous bar and on about half the volume. Sellers attacked again looking to fill the GAP and they succeeded in doing it. There was another thing the decline into the 1:00pm bar exceeded the 38.2% retracement and when this happens you can nearly bet that level will fail 90% of the time when it gets the next test.

If you prepare properly and know what the other technical and fundamental traders are thinking you have a better than 60% chance to make money on the day. The casino odds are only stacked about 51% in favour of the Casino and they can make millions from lazy punters.

One thing you must keep in mind about the market is that it is a LIVING THING. It moves in one direction or the other only because one side has more influence than the other.

Being a Friday there could have been other influences from the buyers weakening as the week had been an up week and many traders like to go home early on Friday's. If they have had a good week they may close out their profitable positions and go flat over the weekend, Monday they will start from fresh. You need to understand the traits of professional traders if you want to become one.

Tuesday 10th, June 2003:

Monday the market opened down and ground its way down to a low of 972^2. This left the three day low intact at 970, so the three day low for today was 972^2. The initial morning move terminated at 983^2 up 11 from yesterday's low, this move overbalanced the 9 point correction from Friday.

The new move up was followed by a 61.8 retracement to 976^4 filling the GAP, this correction was 6^6. Then a retest of the days high was made followed by a correction of 6^2 which did not overbalance the prior correction to the 61.8.

All signs are pointing upwards until the 6^6 is overbalanced now. The 3-day swing is still bullish after today's trading.

As I expected Robert Miner the self-proclaimed Elliott Wave expert issued a newsletter over the weekend declaring the Friday high as the high for the next 6 to 8 weeks.

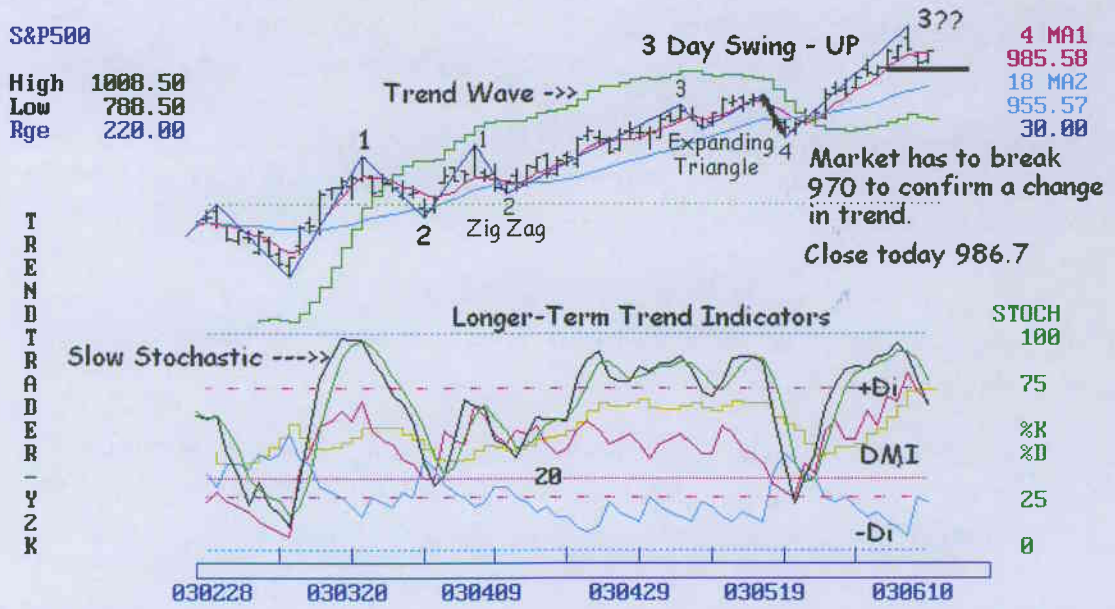
The market today made a good recovery LATE AFTERNOON and as the 970 failure (38^4 down and the previous wave of similar degree) area is still intact there is no confirmation that the high is anything permanent.

Now the 50 and the line in the sand is the only thing between here and a new high.

ONE DAY AT A TIME

If you just move along each day following your rules the market will keep giving you SIGNS of what it is likely to do next.

Always monitor the longer-term trend indicators, as these will tell you what the longer-term systems are looking at.



This chapter appears to be getting out of step with its theme but I prefer to illustrate the things I do as I go along. This way you will learn the context of how I use all the techniques I am teaching you.

The major lesson here is that I don't know what the market will do, I can only guess. But I do have ways to tell what it has to do to change the attitude of the major players. I can develop a trading strategy around the SIGNS I am teaching you. That is all I need to do to make money.

Forecasting will not make you any money, you need to know how to trade to make money. You need to know what the players are thinking and what they are likely to do to make money. No amount of hope will do it you have to work at it and follow rules.

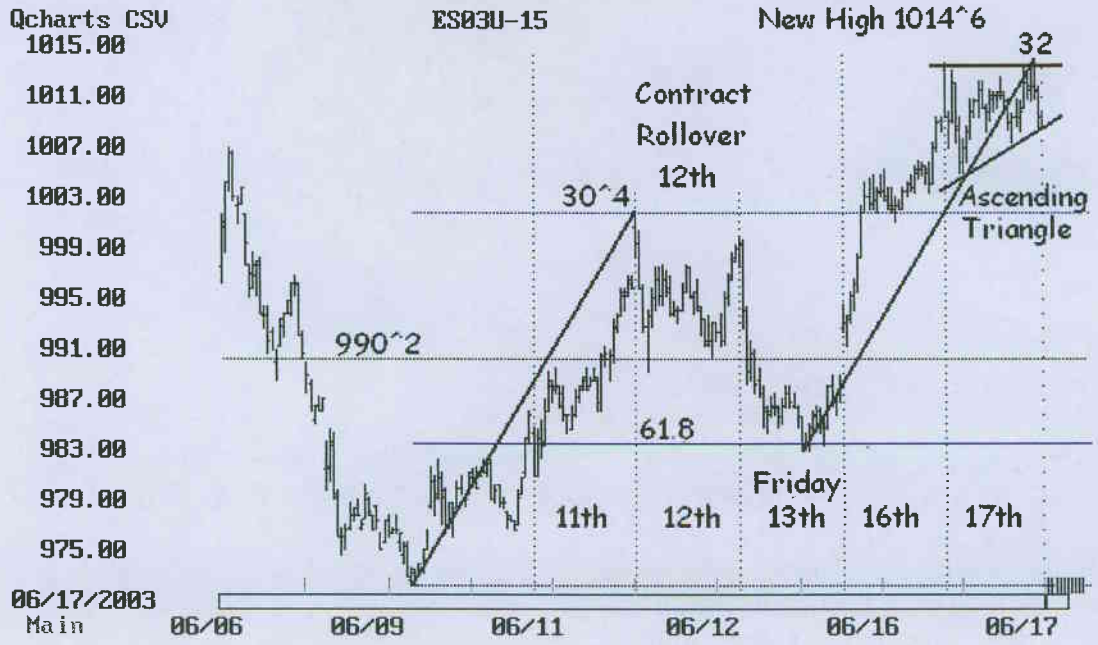
If the market is going up you buy it, if the market is going down you sell it. It is as simple as that.

There are a lot economic reports to be released this week and as they come to hand they will exert new influences on this market. It could go either way in my opinion. A couple of days back I thought it had the chance of going down, now I am not so sure, it hasn't confirmed it is going down.

But I do have several things up my sleeve, as I know if it breaks 970 it will have changed direction, if it doesn't then the trend up is still intact. Each day I can deal with the micro moves as they occur and go home free in the mind and start fresh again the next day. Flexibility is everything in this business as soon as you try and force your opinion on the market it will kick you in the teeth.

Tuesday 17th June 2003:

I have been away for a week and this is what has happened. The 970 level held, there was a sell off back to a 61.8 Thursday and Friday (another 2 day correction) but Monday the market took off running again. The 3-day low remained intact so the swing remained up.



Today we made a new high but the range for the day was very narrow, 9.75 points. The pattern today formed an Ascending Triangle so the implication is for higher levels. This is being confirmed by the length of the two-day advance at 32 points versus the previous advance of 30.5 points.

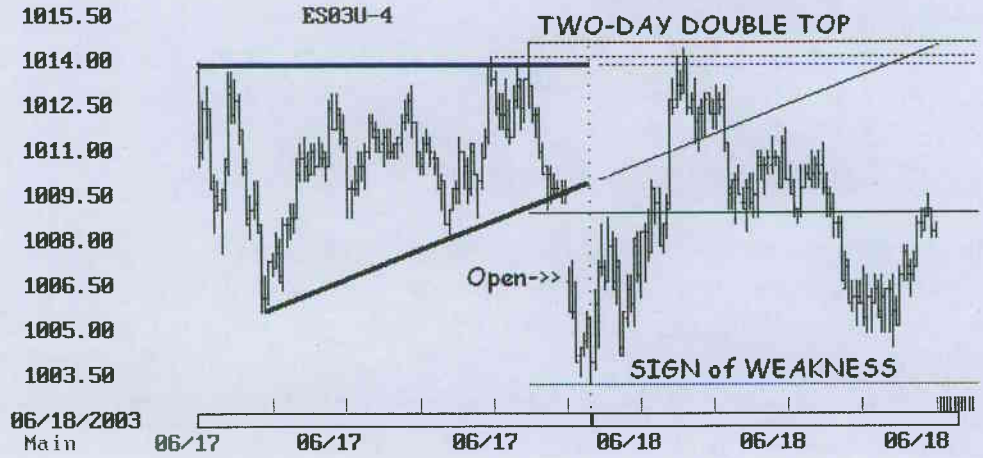
To date from the march low of 788.5 we are up 226.25 to this new high. Open Interest has been building at a rapid rate and is now at its highest level in two years. All daily trend indicators are reading extremely OVERBOUGHT. The talk around town is that the FUNDS are buying so they can show participation into the end of the quarter, after such a dismal performance over the past three years they dare not miss out now.

All-in-all the scene is set for this rally to come to an end. We are getting very close to an important 61.8 retracement of the January 2002 – October 2002 range, this lies at 1021 for the S&P SPX (cash index).

There is a FEDERAL RESERVE meeting coming next week and the speculation is that they could drop the fed funds rate by 0.5%. The rate is currently 1.25% so we are living in interesting times. The real estate market is as over cooked as I have ever seen it, it is hard to imagine that the trend is sustainable.

Wednesday 18th June 2003:

Trading today began on a jittery note and negated the ascending triangle theory. The futures managed to struggle back to make a TWO-DAY DOUBLE TOP before weakness set in again.



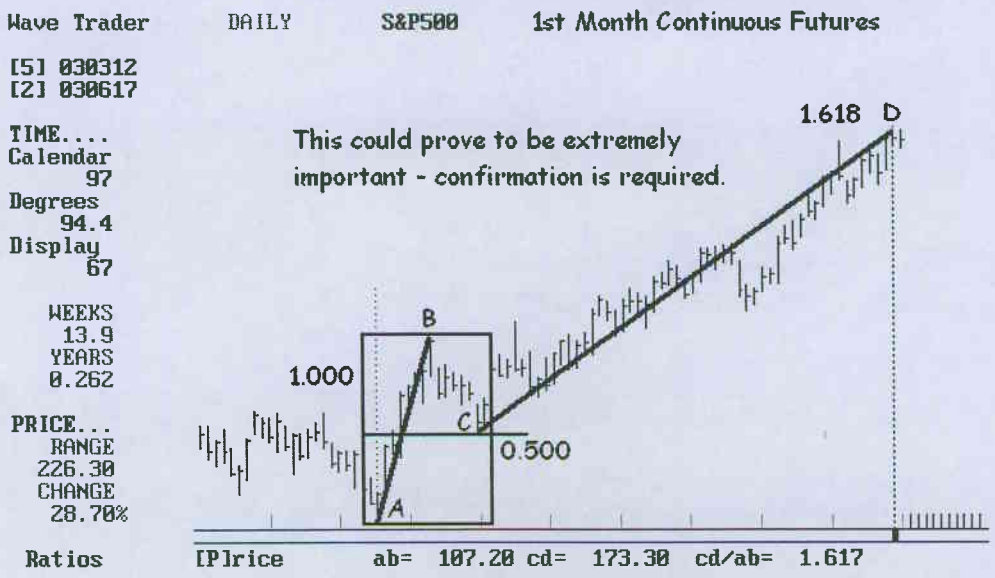
After I saw the opening 12 minutes I realised the market was most likely going to be choppy again today so I went to bed.

On review the only clear cut trade today I saw was the SELL at the double top, the rest of the day was marred with constant overlaps making the type of trading I do very difficult. The past two days ranges are indicative of a confused market. The range today was 11.5 points.

The only trades I would contemplate at the moment would be a BUY if it broke out through the two-day double top or a SELL if it breaks today's low, which has now become the 2-day low.

The past two days ranges have been 9.75 and 11.5 points so what will be happening is that STOP orders will be building up just outside this 2-day range. The average daily range from the March low has been around 15.5 points and the 3-day SWING has been up for 20 consecutive trading days.

This campaign is beginning to show signs of exhaustion right now and the MEDIA is touting comments that the move has gone too fast too soon.



Now that I have had a bit of time to get my analysis up to speed I discovered this geometry at Tuesday's high. This is important stuff in Elliott Wave terms, it won't take the professionals long to see it.

Section 1: Chapter 15:

Open Interest in Futures Markets:

The first rule to learn about Open Interest is that it can only rise as additional sellers enter the market.

Some will argue that OI rises because new buyers are entering the market but this is a FALSE BELIEF because buyers cannot instigate new positions unless someone sells to them. Buyers only have two choices and that is they either buy from a new seller or they buy from an existing buyer who had already owned a long position and is quitting it.

In the latter case the new buyer only assumes the existing position and open interest does not rise. The saying is Sellers COVER positions and Buyers LIQUIDATE positions, don't ever forget it.

The second rule to learn is that when Open Interest is declining the existing sellers are closing out positions and are not being replaced by new sellers.

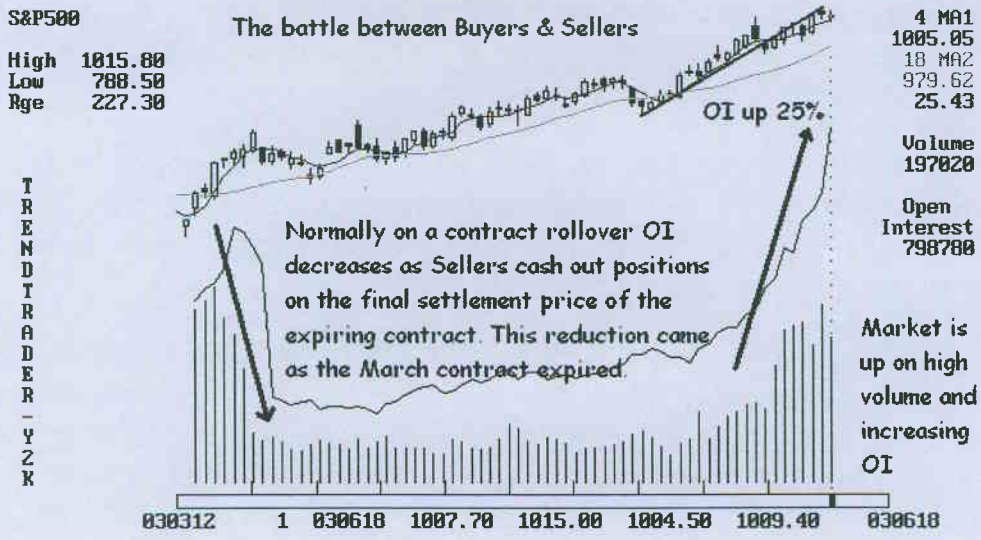
Large fluctuations in the Open Interest (sum total of all contracts outstanding) give you a clue to the positions of the Funds versus the positions of the Commercials or the general public.

The top table shows the OI for the ES E-Mini contracts and the lower table shows the OI for the SP pit traded contracts. The pit contract is 5 times the quantity of the E-Mini contract. This snapshot was taken through the rollover period from the June contracts to the September contracts.

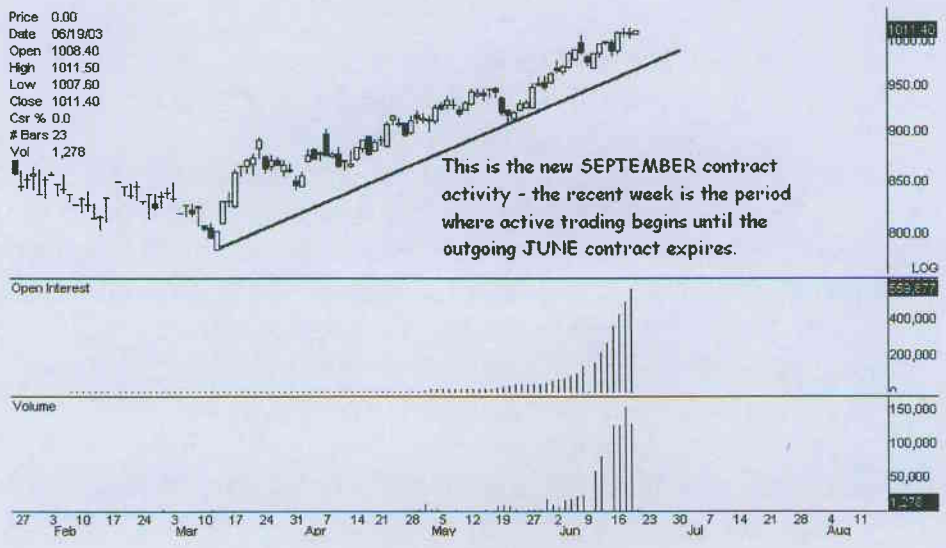
Contract	11-Jun		12-Jun		13-Jun		16-Jun		17-Jun	
	Volume	OI	Volume	OI	Volume	OI	Volume	OI	Volume	OI
Jun-03	574081	893800	145388	752332	55625	737435	66207	702633	41033	666920
Sep-03	7052	19150	677729	141053	528442	199117	752230	255705	729775	278283
Total	581133	912950	823117	893385	584067	936552	818437	958338	770808	945203
Delta	-131957	10699	241984	-19565	-239050	43167	234370	21786	-47629	-13135

Contract	11-Jun		12-Jun		13-Jun		16-Jun		17-Jun	
	Volume	OI	Volume	OI	Volume	OI	Volume	OI	Volume	OI
Jun-03	112543	495876	118583	374643	110848	316616	87214	262312	111582	231206
Sep-03	67175	216833	136681	356161	146454	420589	133173	485527	159430	559877
Dec-03	127	4381	134	5786	520	6401	701	6865	392	7184
Mar-04	100	1649	0	329	24	336	0	336	0	336
Jun-04	0	166	0	166	0	166	0	166	0	166
Sep-04	0	12	0	12	0	12	0	12	0	12
Dec-04	0	0	0	0	0	0	0	0	0	0
Total	179945	718917	255398	737097	257846	744120	221088	755218	271404	798781
Delta	72158	19328	75453	18180	2448	7023	-36758	11098	50316	43563

A cursory look at the tables would indicate increasing Sellers entering and accommodating the exuberant Buyers as the trend up has continued.



It would appear right now that the willing Sellers are holding on the wrong side of the market direction. But there could be another reason for this unusual steep increase in sellers and that is they may be playing out an options play. They could have bought on the money calls at a cheap premium for insurance and played for the market to go down by selling. In any case we will find out soon enough as we are going into triple witching tomorrow. This is when the June contract expires and so do the June options.



The thing that looks odd to me (see the tables) is that this past week the OI in the September Pit Contract has risen rapidly.

The figures for today are yet to be seen as they are reported a day in arrears on the chart. The ES E-Mini June contract has retained a larger than normal OI indicating they may be hedging options positions.

In any case the thing we need to know after the expiry of the options and the June contracts is how much open interest has remained current in the new September contracts.

With the S&P 500 and the E-Mini there is very little trading activity outside of the currently traded 1st month contract. This market is not like a grain contract such as Soybeans where long-term hedging or speculation occurs on future crop prices versus the supplies held in hand.

The reality is that as long as you store your beans and keep them dry they are still one and the same thing, yet you could store stock certificates and they might not amount to anything in the future. So why hedge them? You use them as a tool to buy or sell off basis the current strength of trend. There is a completely different mentality required.

I often wonder why the average person cannot understand the differences between stock manipulators and normal commercial businesses.
The stock market manipulators have it easy really when you consider the ways they can try and manipulate the markets using only paper.

The clue really is to try and understand technically what they could be up to. Funds and Commercials both trade systematic approaches. Both could be trading in the same direction or they could be opposed to each other.

The way we determine this is through the weekly commitment of traders reports.

The CFTC requires large traders to report futures positions on a weekly basis. Traders are categorised as FUNDS, COMMERCIALS or non-reporting.

The FUNDS or the COMMERCIALS are the ones with the grunt, the little guys are not very important because they are the ones who lose most of their money over time. Well unless they learn the business and know how to act on the knowledge that is available. Problem is most of them don't know enough about the market, I can tell you first hand because I meet so many people who have attended seminars or joined the Club144 room of mine that wouldn't know what day it was in terms of the market position.

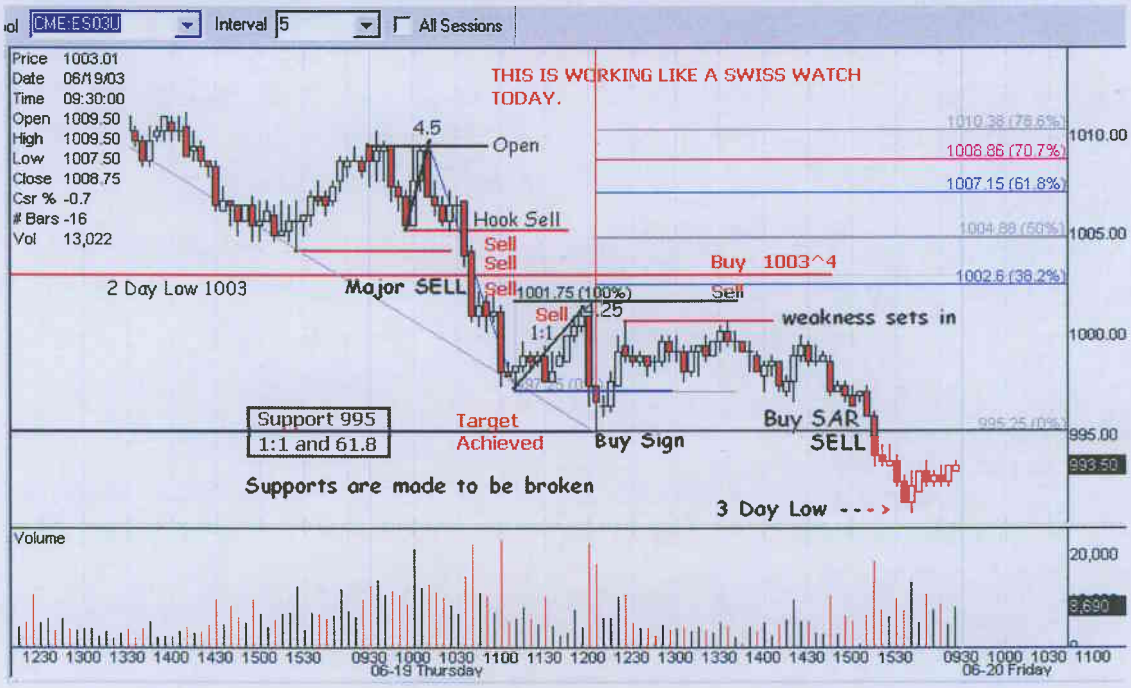
Open Interest on its own may not tell you what the market is going to do today or tomorrow, but when you combine the facts with all the other tools at your disposal it all begins to add up.

You should never forget that to be a professional you have to follow a professional plan.

Thursday 19th June 2003:

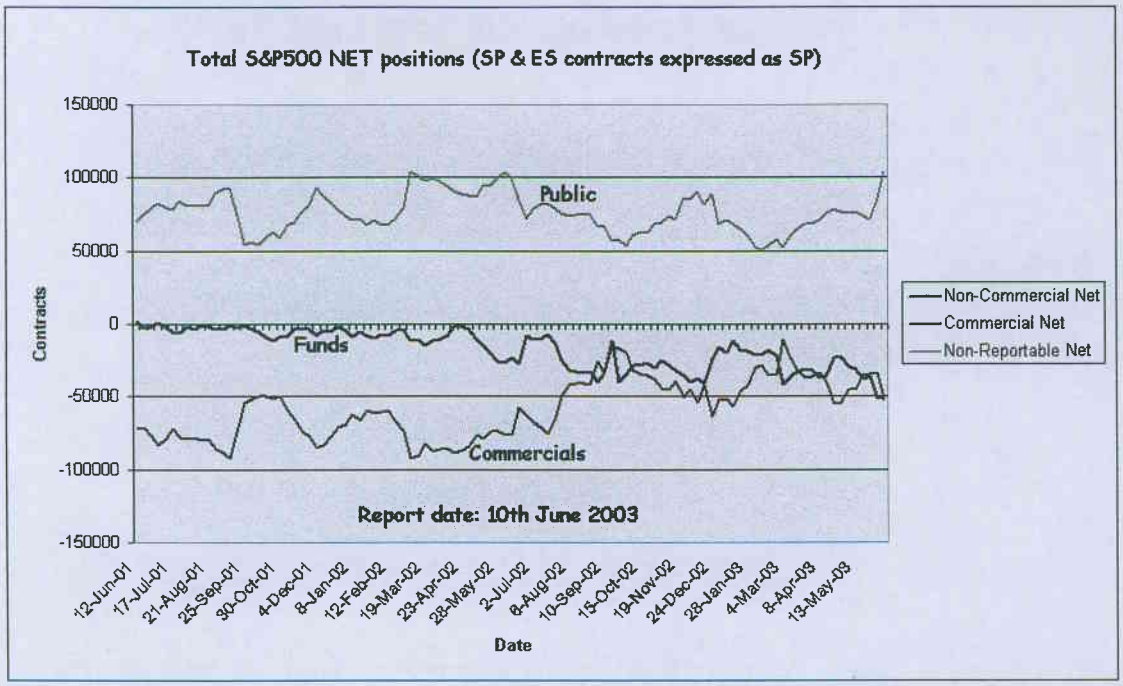
Today the market offered many trading opportunities but before I explain them, here is a bigger picture of how the perceived supports acted as signal points on the day. The market is now back to where we started out on Monday and looking like it is in a weak position. Believe what you see!

Study this chart below as it contains many examples of where you can take trades the way I have been teaching you to date.



As the market moves along you just have to keep re-adjusting to the opportunities presented based on my rules. You don't need to be Einstein you just follow the SIGNS. As long as you stop yourself out quickly when they don't work you will make money over the long-term. The only way you will lose is if you continue to hold losing positions and let them get out of hand.

Last weeks COMBINED CONTRACTS (ES & SP) COT (Commitment of Traders) report had the Funds and Commercials net short at similar figures with the non-reportable (small traders) holding the other side.



Going into this week the OI was still increasing meaning new sellers and new buyers. The idea is to find out where the increasing interest is coming from.

The net positions of the three groups – The Funds, the Commercials and the Non-Reporting positions are important to monitor when you see the market reaching an OVERBOUGHT or OVERSOLD condition basis other indicators.

The big pit contract changes this week are interesting but we also need to examine the combined contracts, i.e., the ES and the SP in total.

S&P 500 STOCK INDEX - **PIT TRADED CONTRACT ONLY**
FUTURES ONLY POSITIONS AS OF 06/17/03

NON-COMMERCIAL			COMMERCIAL		TOTAL		NONREPORTABLE POSITIONS	
LONG	SHORT	SPREADING	LONG	SHORT	LONG	SHORT	LONG	SHORT
(S&P 500 INDEX X $250.00)					OPEN INTEREST:		798,781	
COMMITMENTS								
55,783	92,241	21,071	519,887	501,441	596,741	614,753	202,040	184,028
CHANGES FROM 06/10/03 (CHANGE IN OPEN INTEREST: 79,864)								
5,005	25,567	9,255	62,920	46,417	77,180	81,239	2,684	-1,375

In the week till Tuesday the FUNDS increased net short positions by 20,562 and the Commercials moved into a net long position but not by much considering the number of contracts they are holding as a group. The non reportable positions favour the long side. So it is the FUNDS versus the COMMERCIALS and the PUBLIC.

E-MINI S&P 500 STOCK INDEX - CHICAGO MERCANTILE EXCHANGE
FUTURES ONLY POSITIONS AS OF 06/17/03

NON-COMMERCIAL			COMMERCIAL		TOTAL		NONREPORTABLE POSITIONS	
LONG	SHORT	SPREADING	LONG	SHORT	LONG	SHORT	LONG	SHORT
($50 X S&P 500 INDEX) Values reduced to 1 fifth					OPEN INTEREST:		945,203	
COMMITMENTS								189,040
135,429	176,822	36,658	306,279	661,114	478,366	874,594	466,837	70,609
27086	**35364**		**61256**	**132222**	**95673**	**174918**	**93367**	**14121**
CHANGES FROM 06/10/03 (CHANGE IN OPEN INTEREST: 32,253)								
2,978	-132077	25,517	35,920	117,893	64,415	11,333	-32,162	20,920
Closing SHORTS			Increasing SHORTS				reducing longs	
							increasing Shorts	

When you examine the ES contracts it is the reverse of the PIT contracts so you need to combine both reports to get a clear picture.

Weekly Changes	**Funds** Longs	Funds Shorts	**Commercials** Longs	Commercials Shorts	**Public** Longs	Public Shorts
SP	5005	25567	62920	46417	2684	-1375
ES(1/5th)	595	-26415	7184	23578	-6432	4184
Net	5600	-848	70104	69995	-3748	2809
Analysis	Net Buyers		No basic change		Net Sellers	

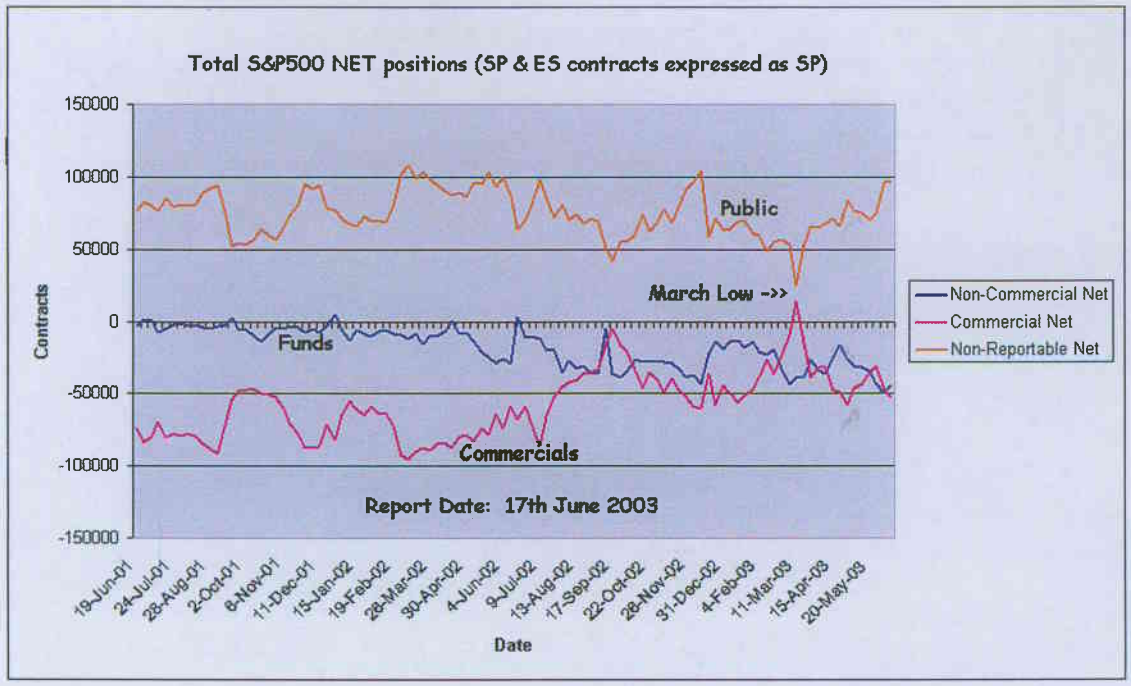
The total open interest on the 17th June 2003 combining the ES with the SP in terms of the bigger contract the SP was reported as a gigantic 987,820 open contracts. This means there are 493,910 longs and 493,910 shorts.

The Previous week the total open interest registered in at 901,606 meaning we had an increase in the week of 86,214 contracts. Half are buyers and half are sellers. The added value for the week, at the close of business on the 17th June, for the contracts on each side is $250 x 1010 x 43,107 or $10,884,517k (11 Billion). More importantly though is that the open interest has risen 10% in a week.

From May 20th (total OI was 663,892) the OI has risen by 323,928 or **49%.**

This pace of increase in OI is unsustainable in a rising market, as eventually we have to run out of buyers. When we do and the sellers have their way the market will fall under its own weight. There will be no buyers left to save it! There are a few smart non-reporters (Public in the ES) taking profits and also getting into position for a turn right now!

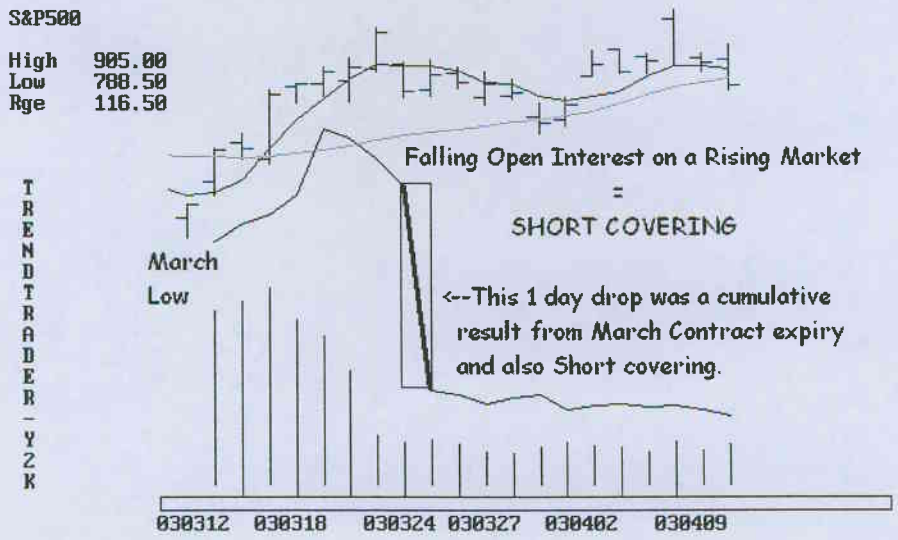
The cracks are showing up in the daily patterns right now, that is why I am currently looking for short trading opportunities all the time.



The basic NET position remains much the same this week but if you look at the pattern at the March low you will get the idea of what to expect. On the decline into the March low the NET public were liquidating longs, the NET commercials were covering shorts while the NET Funds were selling into the decline.

Even though the NET positions of the PUBLIC and the COMMERCIALS were rapidly changing going into the low the overall OI was still rising with the trend.

After the March low and the sharp rally the shorts were cornered and had to cover. They started to buckle 4 days before the high forcing prices higher (they had to buy to get out remember) and even with the drop from the high and the closure of the March contract they continued to cover.



Several observations I have made over the years are these: -

1. When the net Commercial and Fund positions are in agreement against the non-reporting positions there could be violent moves ahead. The public are not as organised or as professional as the operations of the Funds or the Commercials and in any show of force the Funds and/or the Commercials will win.
2. When the Funds are in opposite net positions to the Commercials there is a battle of systems in place. These will be resolved in time but it pays to monitor the changes as prices move along. The reason is that if one side attacks or capitulates the trend can reverse or accelerate at a rapid pace.
3. The public or non-reporting positions are likely to end up losing the battle between the Funds and/or Commercials due to the ability of these groups to fund their positions almost indefinitely.
4. In agricultural commodity contracts the Commercials are more likely to control the market over time. The reason is that they control the carry over stocks.
5. With each commodity complex you need to study the fundamentals and come up with a sensible view as to which side is acting within reason.

Once you have a view of what seems logical, especially basis the current trend, it will be simple enough to come up with an analysis of whether the market will favour an up or down direction.

If you look at the current position of the S&P, right now you would have to conclude that the market has already turned down or will do so sometime immediately in the future. The 2 day trend has reversed and the 3 day looks as good as down.

You need to understand that as soon as one side decides to take profits or cut existing losing positions on mass they will propel the price in the direction of a buying or selling imbalance.

Open Interest analysis is a common sense analysis procedure that you need to go through at least once a week. Maybe the result of what happens in this current S&P situation will highlight it. We will see, but when you combine the 1.618 geometry on the 17th June see S1:C14:P77 we have a compelling case for an intermediate degree high to be in place.

We also have a situation where the market advance has run for 3 months on speculation of an economic recovery, but there is still no real evidence that the recent bull rally is justified to the extent that it has travelled recently.

The only thing you could say is that we may have turned the economic corner and things will improve over time. OI says the majority of professionals don't believe we are in a new bull market yet – they think we are in a huge trading range market and we are approaching the topside of it right now.

Whichever the case, if we take it one day at a time and use all the tools of analysis available to us, the market will tell us what it is going to do next. At worst we could be wrong for 2 days.

If we stick to one simple rule - BUY when you see the market going up and SELL when you see it going down – you can't go wrong.

Section 1: Chapter 16:

News Events / Report Days / Economic Fundamentals:

FUNDAMENTAL VALUATIONS:

Before you can understand the effect the NEWS has on the market players you have to understand the underlying reasons why. The following is a simple explanation, but more than enough to give you a clear picture.

Many brokerage houses, investment funds, both corporate and private, employ a valuation approach to investing in the stock market.

1. In normal times investment houses expect growth in stocks because the companies comprising the INDEX are profitable entities. If they weren't they wouldn't be in the top 500 stocks when you are evaluating the S&P500.
2. Profitable companies are expected to continue growing and thereby increase earnings. These increasing earnings would increase valuations based on the existing capitalization (value of all shares listed on the exchange) and the rate at which they pay dividends.
3. Analysts from all levels of the investment advisory fraternity issue EARNINGS ESTIMATES for the quarter and the year and rate individual stocks as a BUY – HOLD – SELL in simple terms.
4. The individual listed companies also report their own estimates to the street for each quarter and year.

The FUNDAMENTAL reason stock prices rise or fall is primarily based on the investor perception of future company profits and dividends and how the return compares to the current 10 year BOND rate of return.

ECONOMIC CYCLES:

Economic cycles are known to be either stable or they rise into booms and decline into busts.

Consumer sentiment, employment rates, capacity utilization (capability to meet demand), inventories, interest rates, consumer credit availability, value of the $, export and import imbalances are a general way we can understand if the economic cycle is on a positive or negative note.

The consequences of the economic cycle will have an impact on earnings in various market sectors as product prices either rise or fall based on demand.

COMPANY DIVIDENDS:

The investor may or may not know what motivates the profitability of the company he invests in but he does understand the return he will get in dividends if the company is in a position to keep paying them.

If the dividend rate falls below expectations an investor is likely to consider moving his investment elsewhere – this is known as sector rotation in the investment world.

SPECULATION:

Speculation in the stock market is based on the assessments of masses of investor's in regards to perceptions on the fate of future earnings.

There can also be the perception by investors that some stocks will have huge potential in the long-term; or a perception that some companies will have poor futures. These perceptions are the cause for buying and selling stocks.

Not all investors are that astute so they will buy and hold even when the investment sours. But professional investment houses will "manage" portfolios in a way where they move from sector to sector as they think they can spread their risk and try and get better returns than the overall index would provide.

Strangely very few investment houses beat the overall return of the INDEX.

Nevertheless these are the concepts as to why the market moves UP and DOWN. The market moves on account of the actual participation of the players and their overall perceptions of value.

Psychologically the market moves as a whole based on why investors are buying or selling stocks – a simple news release can set the ball rolling.

Money moves in and out of the market from stocks to Bonds and to cash. At certain times Bonds will become hot and the share market will become weak because the Bond market offers better returns at the time. Other times money will flow backwards and forwards from the stock market to cash and back again powered by the actions of short term traders.

LONG-TERM INVESTORS:

Long-term investors such as Warren Buffet have a policy of buying into stocks of companies that have a good cash flow, a good product, a solid asset base and good management. Players like Buffet seldom become speculative and buy companies with unknown histories. If the companies stock price becomes overvalued in his terms he sells up and moves elsewhere. His policy works!

A simple interview with a person like Warren Buffet could incite investor buying or selling depending on what he has said!

THINGS THAT COULD MOVE THE MARKET:

1. Government Economic Indicator Releases.
2. Large companies earnings reporting releases.
3. Changes in the value of the US$.
4. FED Manipulation of interest rates.
5. News of a nature that could affect future company earnings.

It pays to watch the NEWS! Even for the short-term influence some of these events may have on the market.

THE NEWS:

The news provides you a means of evaluating how the next event being reported might likely affect the daily market.

Most times if there is any significant report due it will be preceded by some speculation as to its likely effect on the stock market. The futures market may have already discounted or inbuilt into its price the likely effect of the report on the market before its release. Once the news is in the market the futures will then adjust to the news.

Week of June 23 - June 27

Date	ET	Release	For	Actual	Briefing.com	Consensus	Prior	Revised From
Jun 24	10:00	Consumer Confidence	Jun		85.0	85.0	83.8	
Jun 24	14:15	FOMC Meeting (1st of 2-day)	Tuesday - no reports Monday					
Jun 25	08:30	Durable Orders	May		1.0%	1.0%	-2.3%	
Jun 25	10:00	Existing Home Sales	May		5.90M	5.80M	5.84M	
Jun 25	10:00	New Home Sales	May		1000K	1030K	1028K	
Jun 25	14:15	FOMC Meeting (2nd of 2-day)						
Jun 26	08:30	GDP-Final	Q1		1.9%	1.9%	1.9%	
Jun 26	08:30	Chain Deflator-Final	Q1		2.5%	2.5%	2.5%	
Jun 26	08:30	Initial Claims	06/21		425K	NA	421K	
Jun 26	10:00	Help-Wanted Index	May		36	35	35	
Jun 26	14:00	FOMC Minutes						

Nearly every day there is some report or another that hits the market by surprise or confirms the latest price direction. Mostly they are either released at 8:30am or 10:00am New York time. 10:00am is a critical time to watch on any trading day. Above is an example of the reports to be released this week.

Throughout this manual you will see where I have made references to certain news releases or events that precipitated heavy buying or selling on the day.

Generally the impact of individual news releases on the market will be short lived, but it can be enough to cause large tradable intra-day swings in the futures market. It is not unusual for the futures markets to lead the cash index up or down outside of the exchange traded hours based on a perception that physical traders will buy or liquidate certain sectors when the daily session opens.

BLOOMBERG:

I watch Bloomberg each day whilst in my office as they cover all the NEWS releases of importance. They conduct interviews with leading authorities, CEO's, Economists, Market Strategists, and Investment Advisors. All these things create a mood around the daily market.

Reading the mood around the market is extremely important for a day trader.

Often Bloomberg will interview traders from the floor of the S&P pit and ask them what they expect of the market during the day. You can see by what they say what is on their minds that day. You have to also remember that some of these guys are trading 100's of millions of dollars just on an opinion and on some small technical knowledge. The big traders are always aware of the oversold and overbought aspects of the market – they know where the buying or selling pressure is being generated. I have seen big trading house trader's just stand on a price and take on all comers at times when they think the market trend should reverse. Once they exhaust all the buyers or the seller's orders in the market, the price will move in their direction. When it gets to where they think it should go they cover or liquidate the play.

I said at the beginning of this manual that trading is a thinking man's occupation. Well it is really a high stakes poker game with a difference. In this poker game you get to read the cards being dealt to you before you place your bets. You can choose to bet or check – if everything is in your favour you bet, otherwise you stay out. You should just wait until you see a hand that looks like 4 Aces and then take the bet.

Knowing the most probable direction of the market price requires work to stay on top of it. Knowing what the market price is likely to do in the next 30 minutes is a license to print money. It all begins with knowing the strength or weakness of the players on the day. For this you need to be informed, you also need to know the current market technical support and resistance levels.

You need to understand the habits of the players. When you have all these things together it is just a matter of selecting the right opportunity to start picking the money tree.

Don't trade unless you are informed is the best advice I can give you. When I trade I am **Trading to WIN** - not for any other reason.

Monday 23rd June 2003:

Today we have just passed through the Solstice, this can normally be a date the GANN devotees would expect to see a change in trend possible. What they expect out of this one I couldn't really guess. But it is a date each year to watch in all markets.

My last chart on page 86 was a good indication of what to expect today.

You see if you had been studying the open interest and the 3-day swing levels and the Overbought oscillators you would know that a correction to this uptrend was OVERDUE. And it was showing all the signs that a new downtrend was in the process.

Why the hell would you buy it when everything points to easy money on a decline? Especially when the market is telling you it was going down.

When you guys see the reasons why psychology and fundamentals work in with the technical you will have made it.

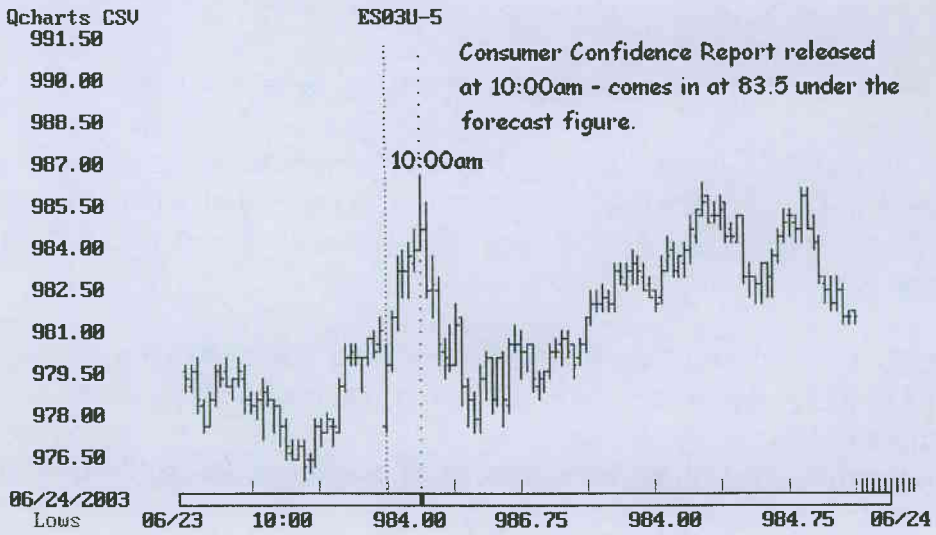
Monday it opened on its high and proceeded to fall over. Easy Money!

I was a seller from the open and took 8 points out immediately. Then I had a couple more scalps for a 1^2 and another 1^2 and a ^4 before I quit.

Tuesday 24th June 2003:

Inside day range 9.5 points.

All I want to point out about today is the effect the report released at 10:00am had on the players. The market open the day with a rally. The previous largest correction since last weeks high had been 11.5 points up. At 10:00am when the report was released the market was up 11.25 from yesterdays low (on a 1:1 reversal signal). The report was not as good as expected and it added credence to the technical sell that the professional traders were waiting for.

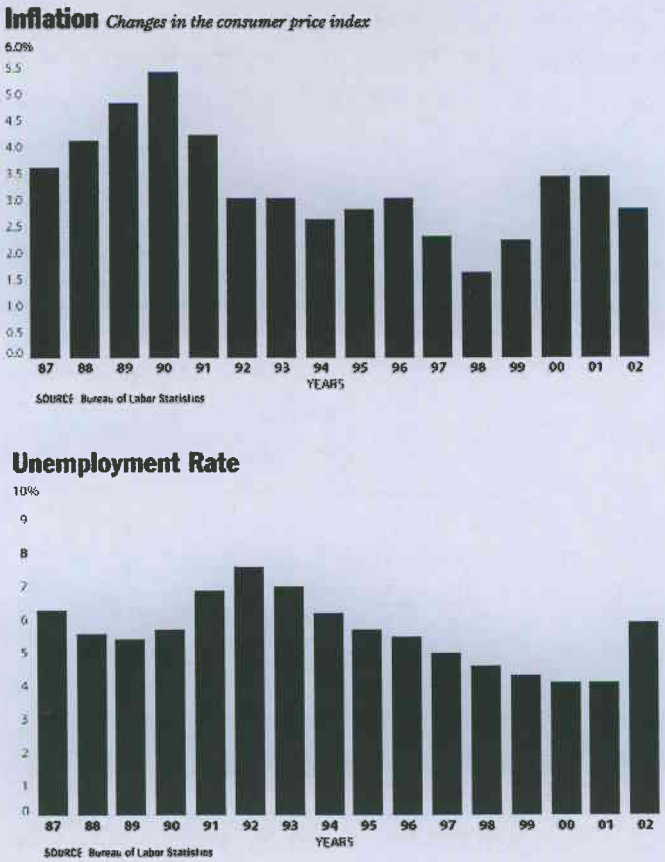


The major announcement of the week is the FOMC Interest Rate announcement at 14:15pm Wednesday. Speculation is that they will drop the rate either 0.25 or 0.5% - the rate is currently 1.25%. How this will affect the market is anyone's guess but the comments from Chairman Greenspan about the state of the economy are sure to have an effect one way or the other.

There is speculation that the FED RATE will eventually go down to ZERO before this cycle of rate cuts is over and done with but that seems unlikely to me.

The highest FED rate in this cycle was 6.5% in May 2000. Since then they have been progressively cutting it in an attempt to fire up the economy. Unemployment has risen from 4% to 6% in the past 2 years as businesses work on cutting costs. The problem with these rate cuts is that they have created a debt bubble as refinancing of mortgages has been rife in the recent 2 years and they have also created a Real Estate bubble never seen before. The comment was made to me today that a one bathroom house in San Luis Obispo that was worth $150k 8 years ago is now selling for $500k.

The FED is also pumping money into the economy at an unprecedented rate which is also weighing on the value of the US$ as it has declined some 30% in value across a basket of G7 currencies.



My thoughts on the path the FED is taking to ramp the economy is similar to what they tried in Japan and that has not worked. Nevertheless the difference between the US and the Japanese mentality is completely different, so it might work. Whether it does or not is not going to bother me.

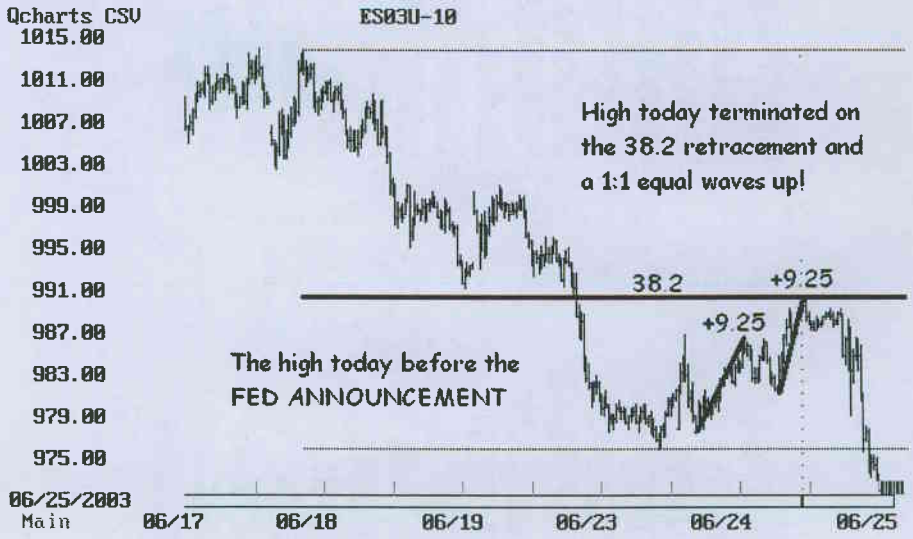
The beauty of this business of trading leveraged futures markets is that you can buy when prices are going up and sell when prices are going down. All you need is an office at home and the communication tools. Basically my business is recession proof. I don't owe any money to the bank, everything I have I own outright, which is a good feeling when you realise the state of the world right now. I have recently done a complete renovation on my house, new kitchen, bathrooms etc., I bought a new car last year and I have a new boat so I am set for life no matter what happens.

You can do the same if you learn to trade the way I am teaching you. Keep your eyes and ears open and follow the daily trend. It is not difficult it just takes time and dedication. So many people fail because they will not do the daily work or they will not take the time to get a holistic view of the markets they trade.

Wednesday 25th June 2003:

The big day! FOMC announcement was due at 14:15pm ET.

Well it started off with a rally into the 38.2 of the range down from last weeks high. This rally terminated on a 1:1 up move. The rally hit the rocks at 11:00am and couldn't move above the 990^2 high.



At first the market shrugged off the Durable Goods Orders report early morning it was a bad figure as it came in at –0.3% on a consensus of +1%.

From 11:00am until about 25 minutes before the FED announcement the market hovered around on extremely low volume, I had sold it a couple of times but had been stopped out, then I caught the first thrust down before the report. Prior to that I had even bought it into the 1:1 for a quick scalp.

The market gyrated on the report announcement but that is normal as people square up their positions and re-set their objectives.

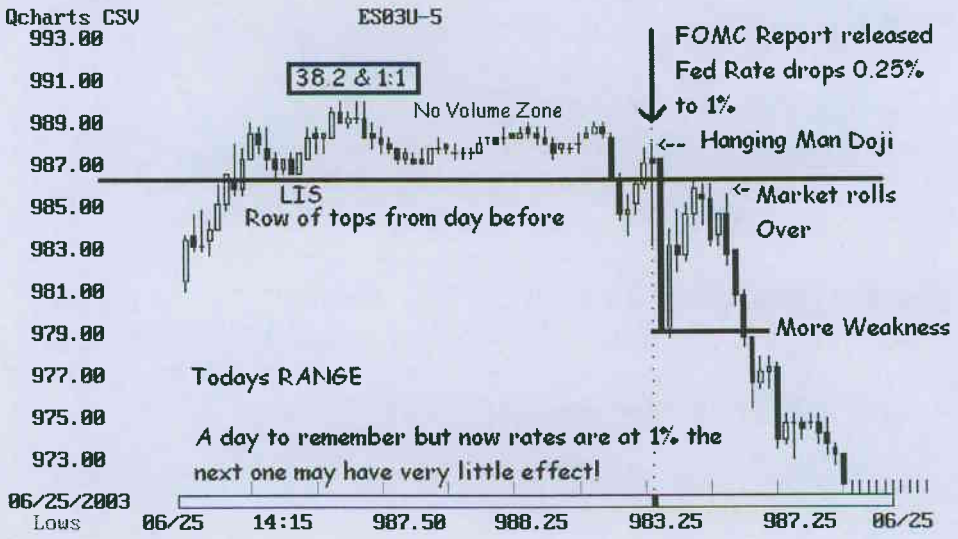
In the first 5 minutes from the report release the market had dived 5 points and then recovered setting up another sell. This was a ripper the market dived nearly 9 points in a hurry, I was on that for 7.25 points.

Afterwards the market returned to the LINE IN THE SAND from yesterday and this morning and sold off. I missed all this because I had been awake for 20 hours and was trading on adrenaline but it was running low and I had to go to bed.

Nevertheless it was a very profitable day. I made 7 trades – the first 4 were not that flash but the worse position I got into was being down a net 1.75 points on the first two trades.

I recovered to +2.5 net on the next 2 trades. Then I lost 1.5 on a sell in the no volume zone. Managed to catch 3.5 out of the sell off prior to the announcement and then took 7.25 out of the post announcement sell off.

If I had have been fresh I dare say I would have sold the 986 test at the line in the sand because I was convinced it was a sell based on the evidence. I told all my guys in the TTW room prior to it in any case.



When the fat lady sings you have to be there to make a move.

The information in this chapter is as important as any other chapter in this manual because it must impress on you the importance of the news.

I couldn't trade without my news services because I would feel like a blind man without a stick.

When I combine my tight stoploss policy with the technical knowledge of where traders place their stops and the value of the news releases I am on top of it most of the time.

There is absolutely no need to forecast what the market will do using my trading approach.

All it is necessary to know are the levels where the professional traders will act. These levels keep changing all the time as the market moves along. The signs are clearly obvious most of the time as either retracement levels or as a 1:1 geometry in the waves of similar degree. As you approach the logical buy or sell levels the news will help you or the market will be demonstrating indications of intra-day overbought or oversold conditions. All you have to do is go with the flow.

Section 1: Chapter 17:

Fail Safe Trade Entry Techniques:

ENTRY TECHNIQUES:

My best entry techniques to enter a trade are:

1. Buy a breakout of prior resistance.
2. Sell a breakout of prior support.
3. Sell into strength when a bear correction looks exhausted.
4. Buy into weakness when a bull correction looks exhausted.

In all cases a tight stop loss policy must be implemented. You will be right or wrong about the level you selected in no time at all. There is no need to risk more than 6 ticks if you can execute your order within 3 ticks of the decision point you selected to take the trade.

EXIT TECHNIQUES:

1. Exit on a pre-set stop loss if the trade does not work immediately.
2. Exit on a breakeven stop if the position initially goes into profit.
3. Exit when I feel the market momentum has slowed down.
4. Or exit on a trailing stop I move along as the trade becomes more profitable.

Before you get into a trade you have to have an escape plan, that is the reason you should only trade liquid markets. Markets without liquidity can trap you. That is why I never trade options these days.

PROBABILITIES ON EACH TRADE ENTRY BEING SUCCESSFUL:

Whether you give the market room or place a close stop loss the probabilities of success are still only around 40/60. There are occasions where the odds look better because of the fundamentals or the market's established trend.

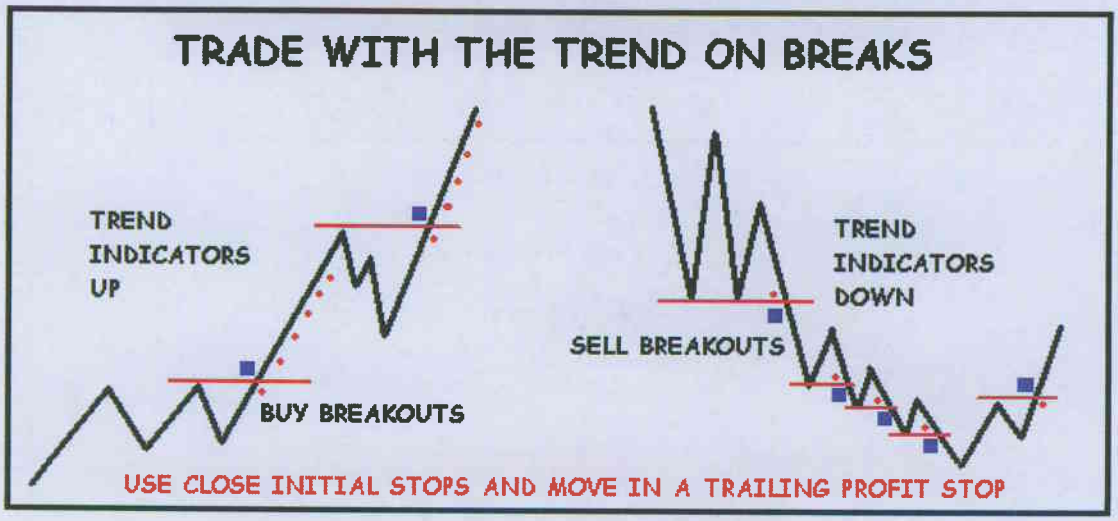
These extra special occasions come to be recognised by experience and feel for what the market is doing.

When you combine chart formations (pattern analysis) with fundamental observations you are on your way to being a professional trader.

Enter a breakout of current resistance or support:

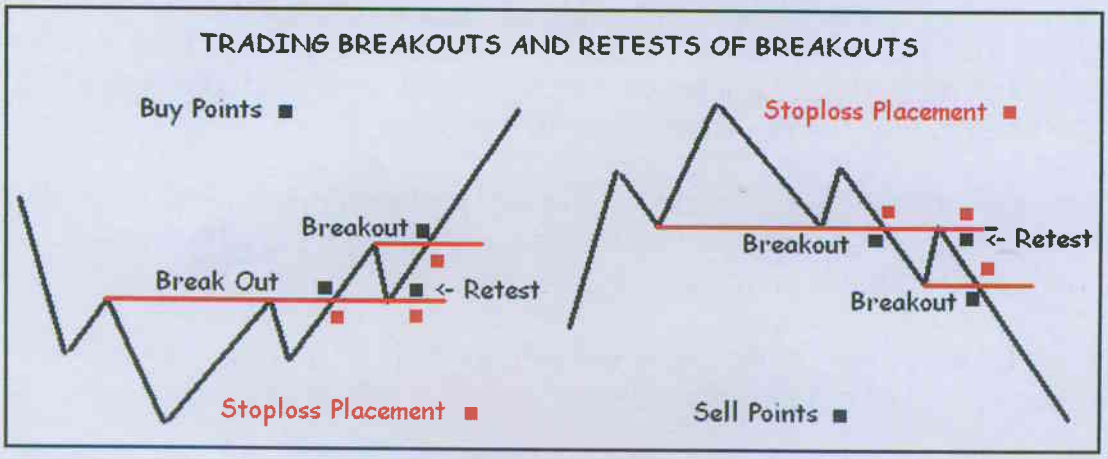
The 1st entry technique a novice or beginning trader must learn is to find a place in the market flow where he can control RISK. The professionals are aware that these types of entries have the greatest chance of success.

The breakout entry method is the simplest of all disciplined entry methods to learn and practice. This is where a market breaks out of a known trading range into a new zone of activity.


TRADE WITH THE TREND ON BREAKS
TREND INDICATORS UP
BUY BREAKOUTS
TREND INDICATORS DOWN
SELL BREAKOUTS
USE CLOSE INITIAL STOPS AND MOVE IN A TRAILING PROFIT STOP

The practical theory is that markets find levels of support or resistance where traders buy and sell off when things are in equilibrium. These levels are easily identified on a 1-minute, 5-minute, 30-minute, 60-minute and daily chart.

The underlying benefit of these levels is that "stops" build up in the market on the other side of these levels. So that when the market penetrates them, if they are there in abundance, the market flow will facilitate trade and the market can move into new levels away from the existing trading range.

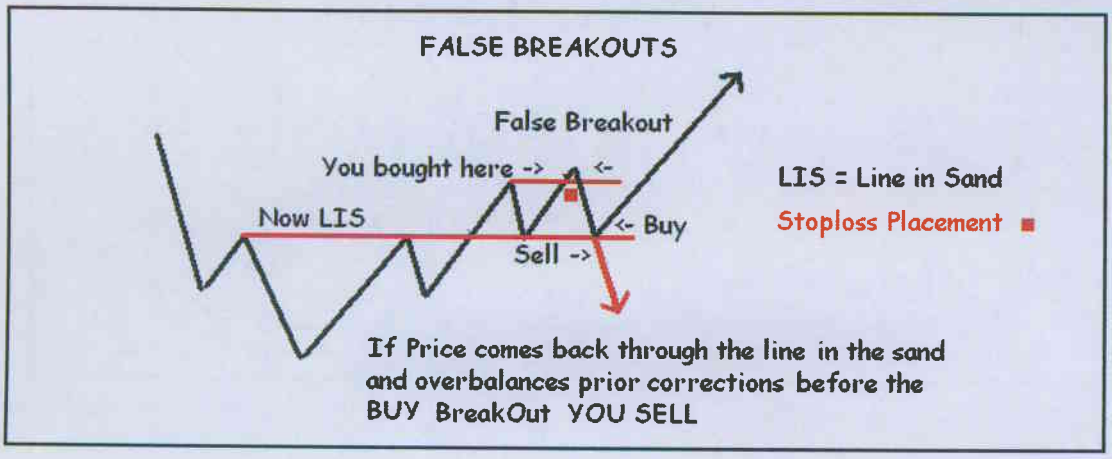


If the market advances cleanly through the breakout point it could possibly suffer a re-think through a loss of propulsion and fade itself back to the break level. This is called a re-test of the breakout and is another opportunity to buy or sell with limited risk.

If there is no abundance of "stops" then the market will make a "false breakout" and retreat back into the prior trading range. In which case you don't want to hold the breakout position you may have taken.

Pretty simple stuff but extremely effective as a trading tool.

If you get a false breakout and get stopped out then watch carefully because the lower support will be the prior breakout point.



The breakout entry method works more reliably when you are trading with the dominant trend, i.e., the daily trend. But intra-day on a 5-minute chart you will find it an effective entry tool either with the trend or counter trend.

If you keep your stops as tight as possible, like no more than 3 ticks inside the breakout signal you can't lose much and all you have done is pay for the opportunity.

Breakout points are the primary basis of my trading plan. What I am looking for all the time is a place where the trend will continue to make advances and a safe place to enter where I can control the risk.

If you can master this method of trading you can make a living in the speculative markets without doing anything else. All you have to be aware of is the forces applicable on the day.

The best pattern set up for break out entries is in a running market in the direction of the main trend. If the set up is there you take the trade.

My idea of trading is to trade with the daily trend on a 5-minute chart, it could be counter trend that day but the daily movement off the opening price will tell you in any case. Position traders should only trade with the medium-term trend daily indicators.

Day trading session breakouts versus Daily chart breakouts:

Normally it is only possible to trade with close stops during the day session.

Breakouts on a daily chart can be violent events or like climbing out of quicksand. By that I mean the market will come back and hit your stop before proceeding in the direction you planned. This is the reason why anyone other than a day trader would use such close stops as I recommend. Most believe that you need to give the market room. I don't I believe that, you are right or wrong immediately and then you re-group and have another go.

To avoid all the disappointments encountered by those people trading breakout systems on DAILY CHARTS one needs to manage the trade entry by working with a 5 and 60 minute chart. All the "arm chair Harry's" lose money because they can't manage their trades correctly. Most systems require them to give the market "lots of room". I have seen so many instances of automated systems taking a position, becoming profitable and then ultimately ending in a loss. If you have already experienced this phenomenon you had better read on and learn how to avoid this.

We don't want to give the market any room, we want to be right immediately or we want to be out! So we must find trade entry points that relate to the current intra-day mood of the market, if we get a runner we can hold it. Position traders should learn to finesse their entry points using the 5-minute patterns this way you can save yourself a lot of pain.

5-minute chart:
The 5-minute chart creates entry opportunities all of the time. The daily chart does so very infrequently.

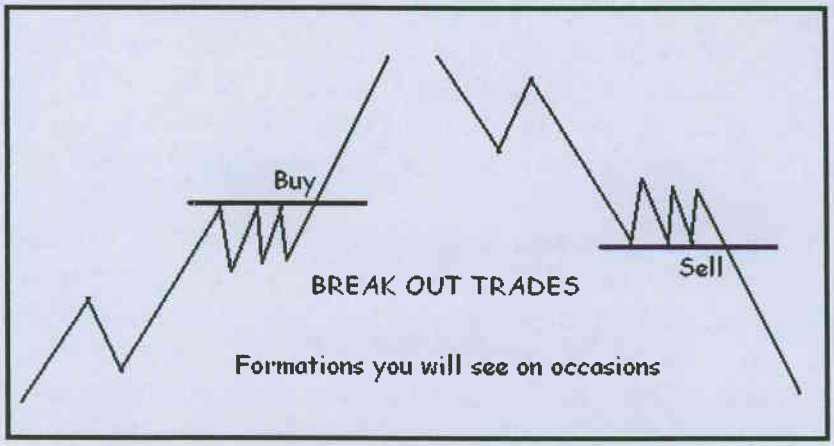
60-minute chart:
The 60-minute chart defines the breakout levels the clearest of all as it shows the daily trends and the levels the traders are mentally tuned into.

The Daily Chart:
Provides the parameters for change of medium term trend most of the time. It is not worth much to a day trader other than to tell him what the rest of the world may be thinking.

The double or triple highs or lows breakouts:

There's an old saying in this business that any old top or bottom cannot be tested more than 4 times if it is going to provide resistance or support. Once it is on its 4th test then the chances it will break next time are way in the favour of a break. If it does not break and then confirms a directional change then the reverse way is the way to go.

You won't get to many of these on a daily chart but they occur time and time again on a 5-minute chart and offer great opportunity to profit.



If the trend before the congestion is clear then the BREAK OUT should succeed.

You could see a series of tops or bottoms that were formed over a two or three day period. These are the best breakout opportunity you will get because the market has given everyone a chance to move their stops into place above or below where the breakout would occur.

When the breakout comes all the people around the wrong way "run for the hills so to speak".

Don't wait for a re-test of the breakout in circumstances like these above because it will never come. The trend has been confirmed on the breakout and every smart trader will know it.

These are opportunities some traders just wait for and when they come they will "load the boat". That is they will trade huge positions and the imbalance of orders going with the trend are so great they will eat up any resistance so fast you won't have time to blink.

You should think about your trading plan in situations like these because they give you a chance to double or triple the size you normally trade and go for a killing.

Selling into Strength or Buying into weakness:

Market strength is an upward movement; Market weakness is a downward movement. So it follows that STRENGTH in a bear trend is a correction, WEAKNESS in a bull trend is a bull market correction.

You must always favour the direction of the prior larger degree trend.

When you see formations unfolding like these the market is trying like hell to go up in a bear trend or go down in a bull trend. It helps if the line of resistance or support is located on a known retracement level because it gives you the chance to place your stoploss just above or below that known level.

The reason is that at times like these you are likely to get a FALSE BREAK just above or below the congestion before the reversal actually starts to take hold.

A false break in circumstances like these is what is known as a failed signal and a failed signal is the strongest signal you will ever get.

Once you see a confirmation of a false break you can instantly double your position if you wish. The reason is that as soon as the locals see it they will just bombard the market with orders and accelerate the reversal, basically it is a no brainer trade.

Just remember you need to see the black crows if selling or the white doves if you are buying.

Market patterns are a measure of the psychological forces at work in the market. They show the thoughts of the buyers or sellers in the market. When one side is up against the wall the superior side will stick it to them.

You have to learn to think like a trader if you want to become one.

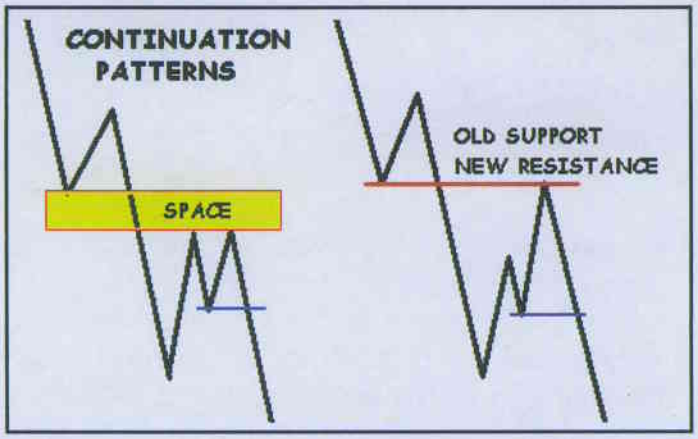
I don't want to make this section over complicated but the general idea is to find levels that have either been resistance or support before and use them to initiate trades off with limited risk.

The point is that there are other smart traders who will be looking at doing the same thing and as you all move together the chances are you will turn or accelerate the market by your joint actions.

UNDERSTANDING GENERAL TREND STRENGTH OR WEAKNESS:

The Depth of the market corrections.

It is all a matter of pattern before you determine to buy or sell the strength or weakness having regard to your perception of the major trend.



If the current correction is only a reaction and leaves some space between the previous impulse level in the series it is more likely that the strength or weakness at the time will fail.

The market could also retrace all the way back to the base of the prior correction swing level and fail. This is also known as retesting the prior breakout.

In most cases the failure to take out old support will halt the move and a continuation of the prior major trend will follow.

The diagram shows only the bear case but if you reverse the patterns the bull case would apply.

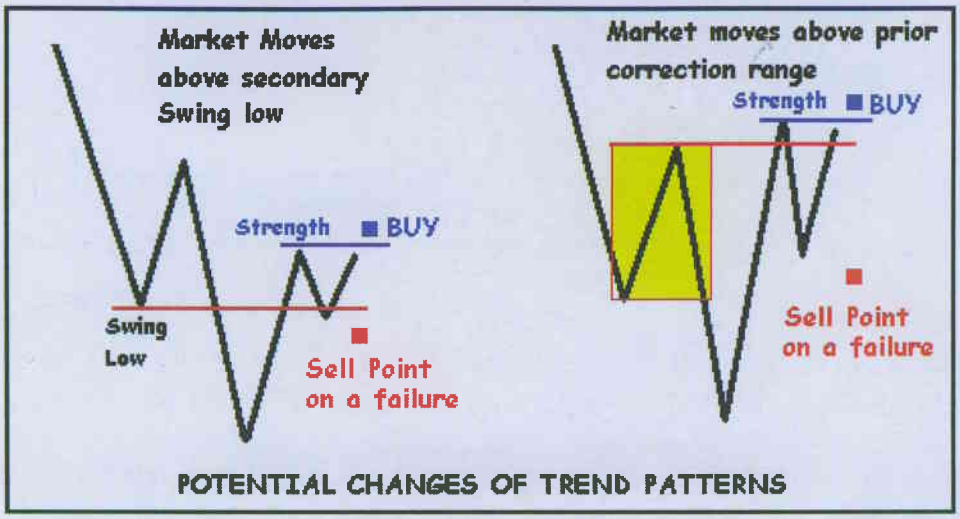
To become an all round trader you must learn to identify with these patterns.

These patterns will give you an opportunity to make money!

These patterns are your first indication that the current strength or weakness is about to fail. Proof comes later.

BEWARE OF PATTERNS THAT HAVE THE POTENTIAL TO SIGNAL A CHANGE OF TREND:

If the current correction is overlapping a previous swing high or low in the series of the current trend; then the trend cannot be defined as strong, it maybe a consolidation or a reversal of trend. You must beware not to take anything for granted.



I like reminding myself of this situation because the market could be changing trend and you have convinced yourself beyond any doubt that a continuation will follow, i.e., the market will resume the prior major trend.

Anytime you have that feeling beware!

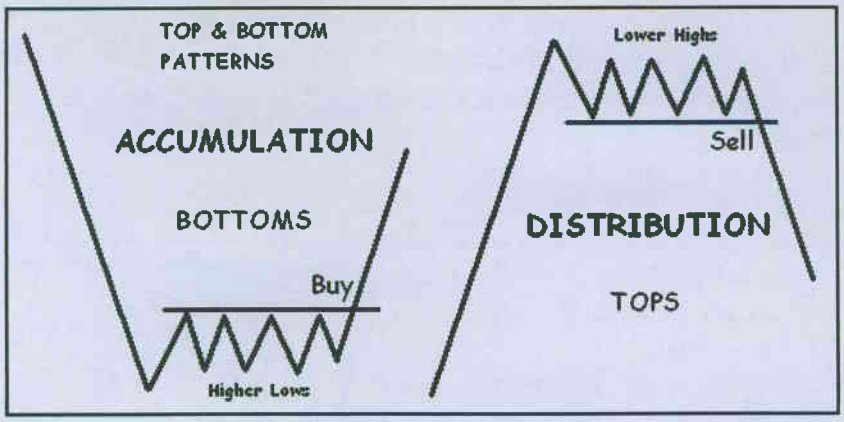
Over the years I have experienced trend reversals that seemed illogical to me: when taking into account the local news events and those around me. But the trend did change and confirmed itself later.

The pattern of the market trading ranges each day monitor the money flow in the market, the market is always right (you can argue that one all you like, I don't care what you come up with).

The thing is that when you get overlaps in wave structures the traders are not scared of the past. You must ask yourself the reason why? The only reason can be that they have a new agenda for some reason maybe unbeknown to you.

The market pattern is the first sign of change. Stay with the pattern no matter what your personal feelings are. The rewards will follow as the years pass by.

ACCUMULATION BOTTOMS & DISTRIBUTION TOPS:



These situations come along on a regular basis in the intra-day market activity.

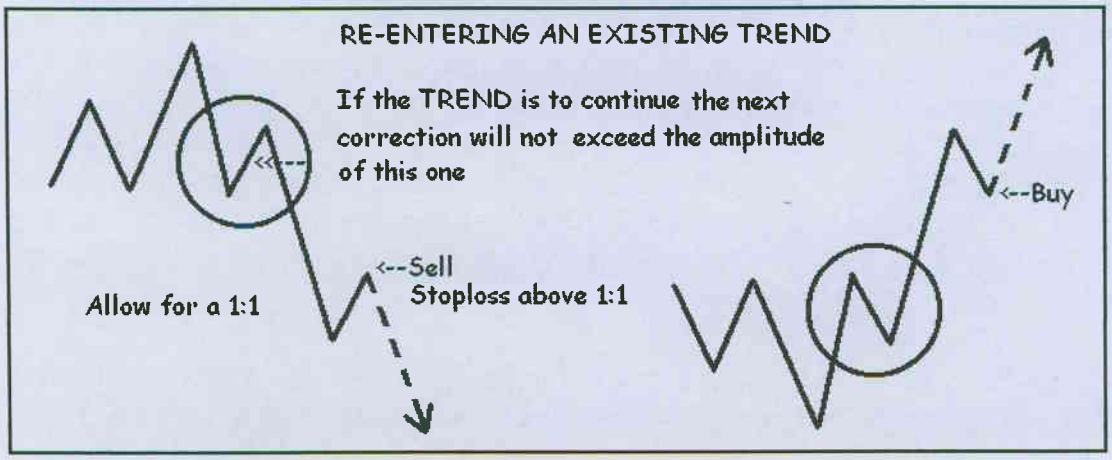
Accumulation is a result of buyers quietly taking on the sellers at a certain level until the sellers give up and more buyers come onto the scene.

Distribution is where the sellers progressively sell into the buyers who think the market is going higher. Finally the buyers dry up and the market falls over.

Patterns like these tops and bottoms generally form on low volume days until the market breaks out and starts hitting all the resident stops.

RE-ENTERING AN EXISTING TREND:

The safest way to re-enter an existing trend is to use the OVER BALANCE RULE:


RE-ENTERING AN EXISTING TREND
If the TREND is to continue the next correction will not exceed the amplitude of this one
<--Sell
Stoploss above 1:1
Allow for a 1:1
<--Buy

That is once an initial correction has formed and the trend direction has been confirmed you can use the initial correction amplitude as a trigger point to enter for a continuation.

If the correction amplitude is quite large it also helps if the correction you are re-entering on is a price retracement to the existing impulse.

But on a 5-minute chart in the ES E-Mini these types of entries can be made when the corrections are as small as 3 points.

Before you do enter like this check the 5-minute Stochastic because in a downtrend it should be coming back to Overbought. In an uptrend it should be coming back to Oversold.

SO FAR:

I have shown you some simple ways to select trades, I have others that you will find hard to believe, but they are based on mathematical concepts and I need to explain them in full detail and then demonstrate them to you.

Nevertheless what I have shown you in the first section of this trading course is more than enough to turn you into a professional trader.

All you need to do is develop the street sense to go with the methodologies, because if you can't do that you will use my methods at the wrong time and you will lose money. I have no control over your personal actions.

Opportunity traders often trade counter trend when the situation demands, yet to be super successful you have to get back in step with the market once those opportunities are exhausted. Only a few talented traders realize this, most others keep trading counter trend all the time and miss the runs too often. I have been guilty of this many times but I keep telling myself to watch the market more closely, I am continually over coming my own problem.

What you must realize is that you must stay flexible to the slightest change in market sentiment to trade my method. You cannot afford to have a fixed view. If you can't do this then stick to the breakout formula it will be enough.

Nevertheless these two things you must understand.

1. **Trending moves** seldom make corrections to the main trend that last longer than 1-3 days. That's a lot of bars on a 5-minute chart.

2. **Corrections** seldom make a retrace of the prior primary movement that is greater than 61.8%; normally 50% or 38.2% is the order of the day or 1:1 with the last alternate wave of prior similar degree.

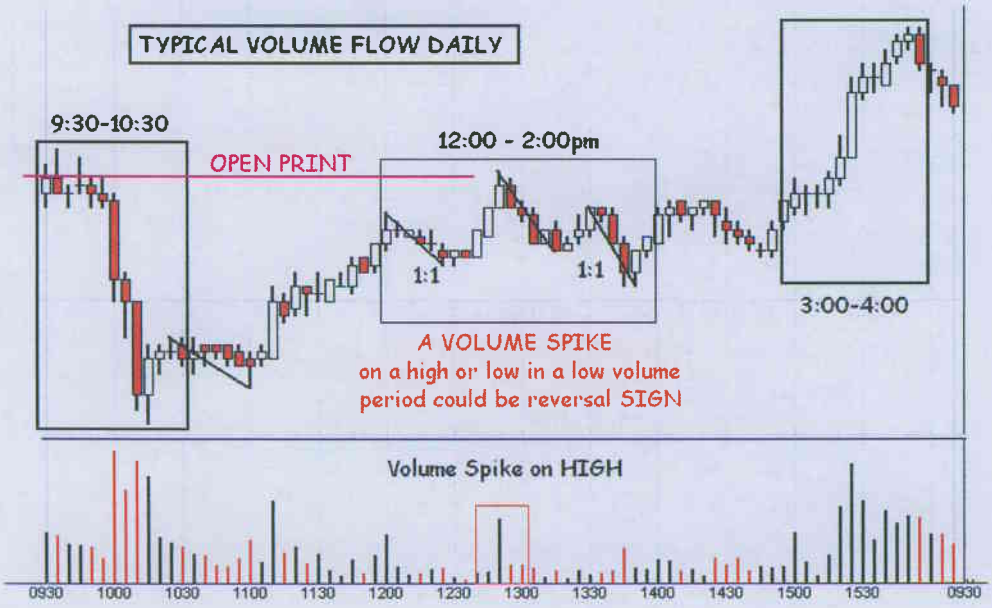
Section 1: Chapter 18:

Daily Range Patterns:

Every day is a new day and it is possible anything could happen. We should start the day knowing where the significant 38.2, 50 and 61.8 levels are. We should also know the levels of any significant 1:1's and the significant MOB levels.

If the market breaks any of these levels and negates their importance we should immediately update our chart for the ones that change.

One thing I should alert you to is the pattern of volume during the day. The normal pattern of volume during the day will be highest in the 1st hour and the last hour of the day. From around midday until 1:30pm ET the volume generally slows down unless the market is running hard in one direction or the other. When the volume drops the market is inclined to trade in tight ranges.



When the volume is low you will occasionally see VOLUME SPIKES as they are more pronounced on your chart. Basically they mean a lot of transactions took place at that level. Determining what they mean is another thing as the standard line of thinking is that markets rise or fall on high volume.

Nevertheless in low volume periods a VOLUME SPIKE can mean the exact opposite especially if it coincides with a known reference level on the day. Could be many reasons why but you need to work them out on the day. Remember I have always said this is a thinking man's business.

Another thing to remember about low volume periods is that PROFESSIONAL TRADERS who make transactions in big quantities such as 250 or more contracts at a time cannot execute more than 250 contracts in one transaction on the E-Mini at a time. So they have come up with schemes to try and keep the market in the area they wish to buy or sell at until they get set.

For instance if they were buyers at a certain level they can get someone else to place huge resident orders to sell at a slightly higher level. The average trader if he is a buyer sees the SIZE just above in the MARKET DEPTH and figures the market cannot get through it so he holds his buy order back. The manipulators buy up everything at the levels below and when they are set they have the resident sell orders cancelled leaving a clear path for the market to go up. The reverse can apply equally at places where they want to establish sell positions.

So when you see massive SIZE in the market depth and then all of a sudden it just disappears you will know what is going on.

This sort of thing has been going on, on the pit floor forever and a day. Guys like Louis Borsellino who had the reputation as the largest trader in the pit has said openly that some days when he was trying to establish a position in one direction he would have another broker do the buying for him while he stood on the floor either offering or bidding lesser quantities in the opposite direction. As soon as his position was set he would then try and push the market in that direction by unloading the positions he had personally bought to hold it back while he was getting set.

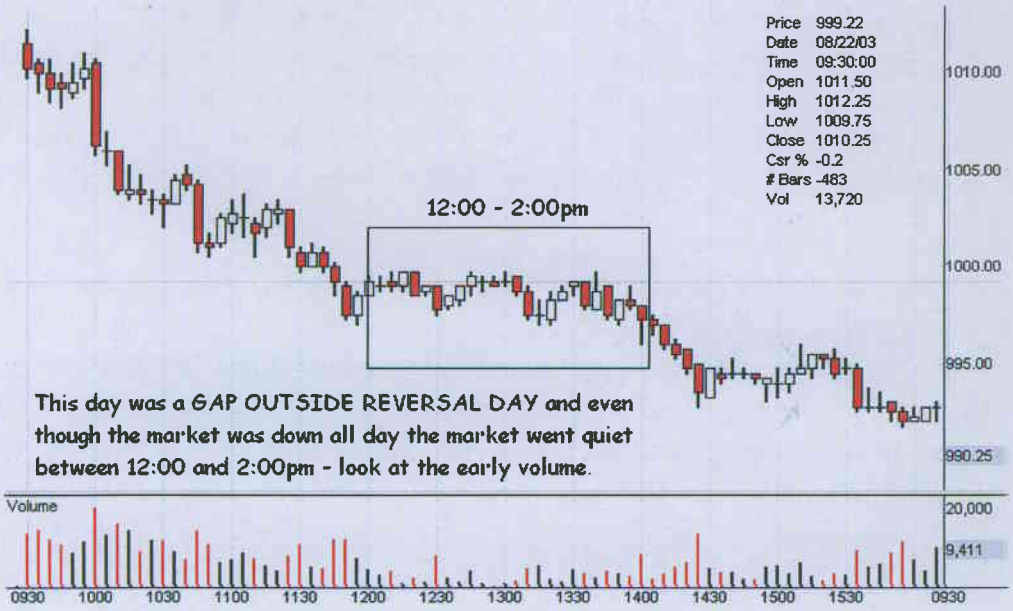
There is nothing illegal about doing this. Well not unless you get caught.

Another thing to remember is that there could be a lot of arbitrage going on between the pit and the electronic at times. You can see from the Commitment of Traders reports that there is so often an imbalance between the Pit contract and the E-Mini Electronic. Most weeks the report has Large Reportable positions for traders in the E-Mini the opposite way round to the PIT figures. Just remember they can do this because their transaction costs are so small compared with the average trader.

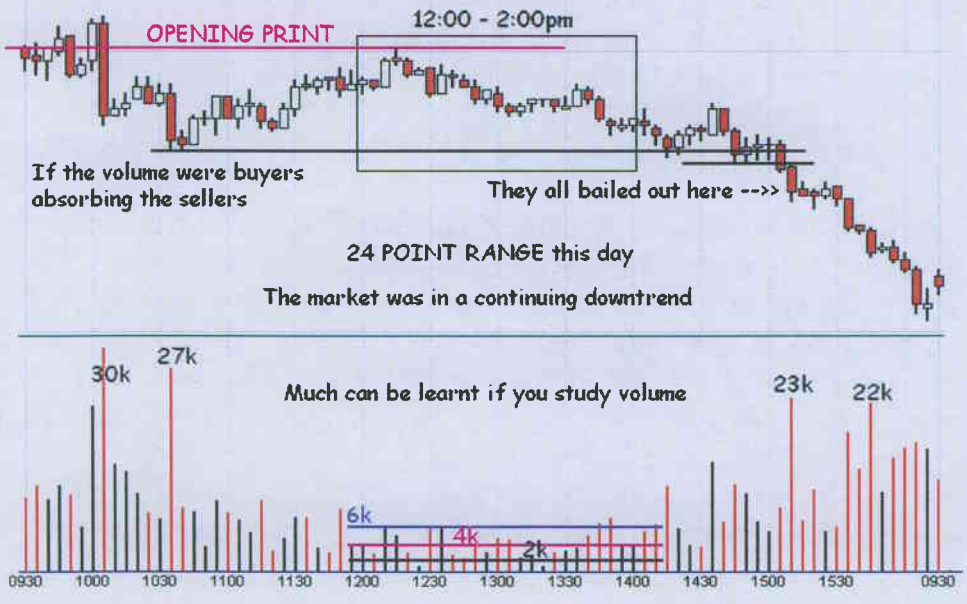
Now you might say after me telling you all this that the market is rigged!

Call it rigged or call it normal business – I prefer to think of it as normal business practice. I know what they are capable of and as long as you do you can learn to deal with it.

Human nature is never going to change, if someone can find an edge they are going to exploit it. Unless you know all these things before you put your hard earned money on the line you are only going to be a lamb standing in a paddock waiting to be taken to the slaughter yard.



During the 12:00-2:00pm period the market went into the doldrums and formed a continuation rectangle pattern. When everyone returned from their lunch break they sold it down further.


OPENING PRINT
12:00 - 2:00pm
If the volume were buyers absorbing the sellers
They all bailed out here -->>
24 POINT RANGE this day
The market was in a continuing downtrend
30k
27k
Much can be learnt if you study volume
23k
22k
6k
4k
2k
0930 1000 1030 1100 1130 1200 1230 1300 1330 1400 1430 1500 1530 0930

Just in case you are wondering where I am going with this you will find out when I have shown you enough daily range patterns to allow you to arrive at the correct conclusions.

But for the moment just observe the simple things I am highlighting as I go.

What I want to teach you is to observe what the market is doing from when it opens until it closes without even thinking about what happened the day before. Sometimes the influences from what happened yesterday can throw you off the beaten track as the day progresses.

The morning session is usually a carryover from what the market did yesterday and how it reacts to the morning news.

As the pattern of the day unfolds it has to negotiate the 12:00-2:00pm period and most likely the daily strength or weakness will become obvious as the market heads into the afternoon session. Well that is what I am always hoping for but it does not always happen.

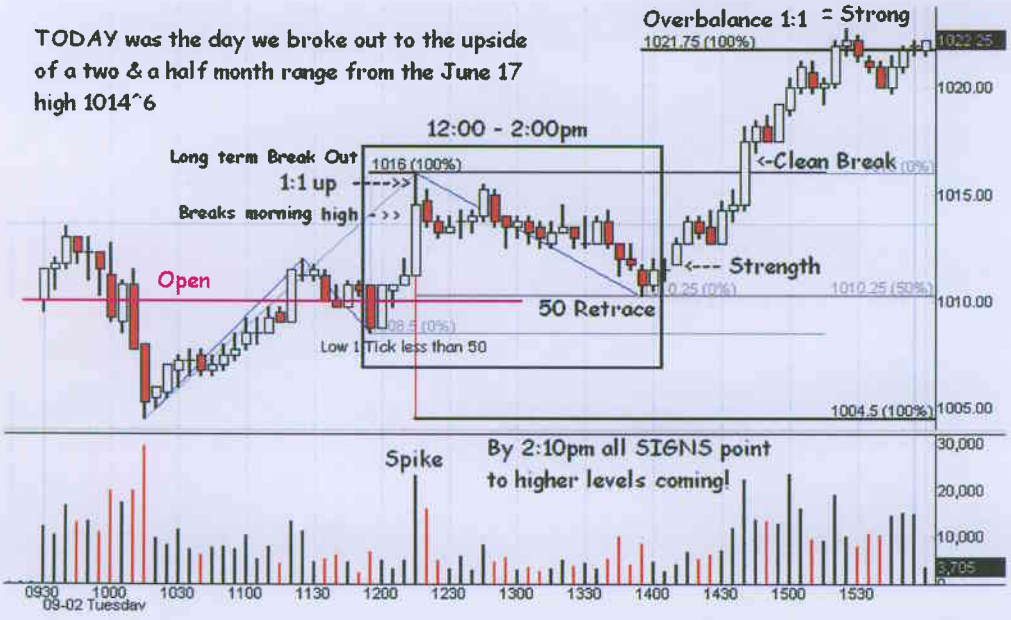
This day there was no positive retracement level at the low for the day to go off and the market was sideways into the 12:00 o'clock zone and then came to life for some unknown reason. I thought it was a candidate to collapse but it never did until the next day. The next day is shown on the chart previous to this.

Now I will propose a situation to you regarding the OPENING PRINT. It is common knowledge amongst professional traders that the OPENING PRINT area is more often than not the high or low for the day (better than 50% of the time).

So how do we use that information?
Well you could just jump in at the opening of the market in the direction of the 3-day trend and buy or sell with a 5-point stop on the position like a lot of traders will do. A better way is to HOOK the trade in the direction of the 3-day trend. That means if it goes counter trend in the first few minutes you join the trade as it hooks back through the opening price in the direction of the 3-day trend. This is a popular trade and often the other traders will help it work for you.

This was a very interesting day because the market was opening from a holiday weekend and it was just below the highs of a two and one half month trading range. The ISM Index report came in at 10:00am slightly better than expected. Several things were in the favour of a breakout because the DJIA and the NASDAQ Indices had already been trading in new ground and leading the overall market.

The Commitment of traders report from last week had the Commercials and the Funds holding an increasing NET SHORT position against the prevailing trend, they had basically been increasing shorts all last week. So the day began as it had been doing nearly every day last week by selling down in the first hour of trading as they took more shorts onboard and then rallying once they took the pressure off. Now after today I think they will have to reappraise their strategy, we could see the market begin rallying from the open as they unwind positions. They haven't had a very happy 2 months.



The market went onto break the old June 17 and July 14, 1014^6 double top at 12:19pm on a huge volume spike as an attempt was made to hold it back. Even with the 1:1 at 1016 there was no continuing selling of any magnitude and all the market did was move sideways as usual for the rest of the quiet period into the 2:00pm zone. Then at 2:00pm we bounced off an exact 50% retracement for the day. This was the sign that the market was back in business and you can see where it went to during the afternoon.

The important things to remember about today are: -

1. How the market was sold down after the open while it was still below the 1014^6 double top as had been the case most of last week.
2. How the market advanced to an exact 1:1 at 1016 on a volume spike.
3. How the market regained the trend of the morning rally after making a 50% retracement back to its hypothetical balance point on the day.

Today the market opened with a GAP from the close of the day before and sold off into a LARGER DEGREE 50% RETRACEMENT.

The highest volume 5 minute bar for the day occurred on the low bar for the day.

Once the GAP from the opening had been filled the market sold down until 12:30 pm. A burst of selling at the time was clearly absorbed by buyers. The market moved sideways to upwards until 2:00 pm and then broke back above the consolidation zone (Green line). The signs were evident for the rest of the day that the market was going up as the 1x1's kept coming out and the market was making higher lows with good impulses in the up waves. There was no apparent selling at the 38.2 and it was only when it hit the 50% level of the week's decline that the profit taking came into play.

The daily bar could be described as a Key Reversal Day as a new low was made with a higher close than the day before.

The decline from where the gap was filled retraced 6 full points and becomes the benchmark for the next days trading. By this I mean that we should not retrace more than 6 full points while this advance remains strong.

Each day you should try and make an objective review of what transpired on the day. If you do this then you will get the idea of what I say about professional traders having habits.

Once you become familiar with their habits you will be able to read what they are up to most of the time. It's as simple as that – once you know what they are doing you can use the knowledge to make money from it.

The next day:

Personally I had no idea what was coming today but I did have a plan, I explained it in S3:C3:P34.

When the day started there was not enough buying to get the market to break up through the 50% level high (1018) so the locals went the opposite way knowing that 6 points down would be an achievable target. The 50% retracement of Friday's range back the other way was always going to be a problem for the locals so they took the pressure off down there around the 1012 and the market just bumbled along not knowing what it should do.

The thing to learn from all of this is that professional traders know the levels to focus on and they come to work prepared to act accordingly.

If it doesn't go the way they are hoping for they just take the line of least resistance and play off the dummies who don't have a plan or have exhausted their plan.

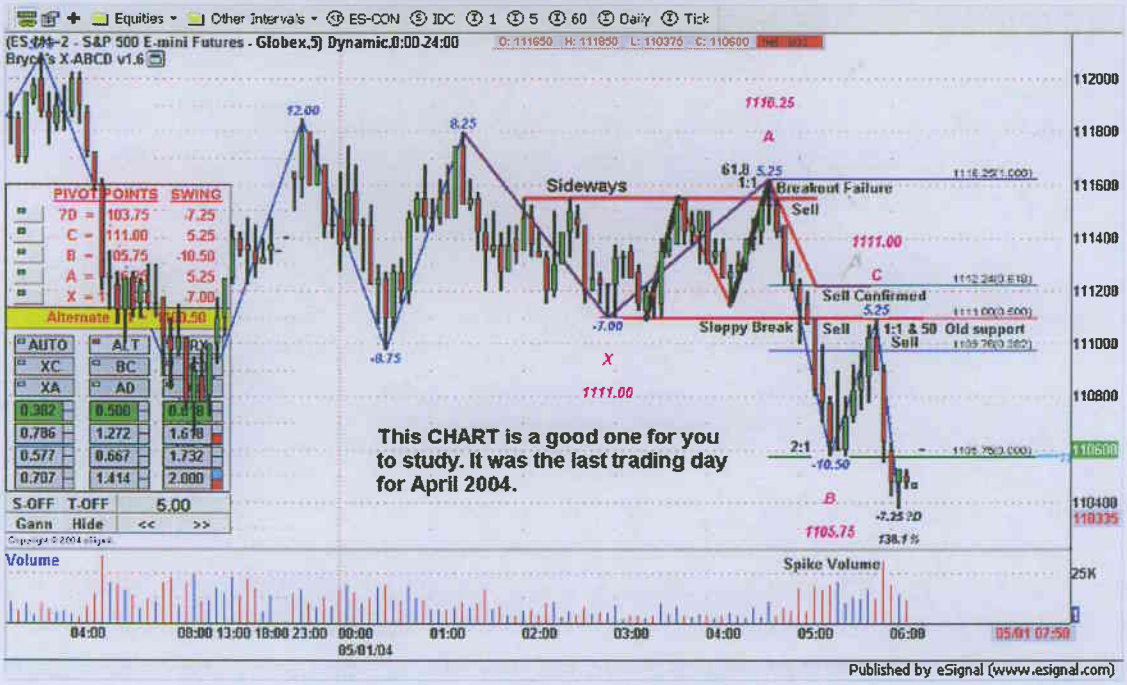
If you watch the market day by day, figure the strengths and weaknesses of the players the opportunities will keep coming along.

If you play this game the smart way you can win and easily. You don't need a doctorate in psychology – all you need is plain street sense and an understanding of what motivates the players to do what they do naturally.

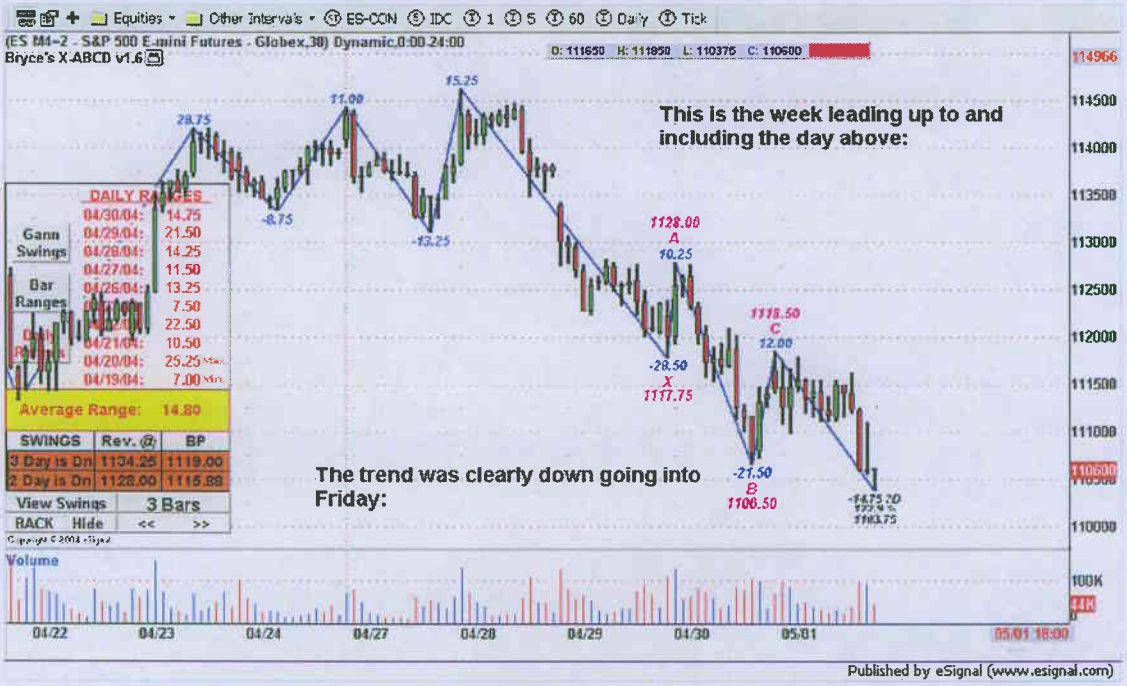
The world is never going to change, believe me – only the price levels!

I just had to add these charts to the course:

The action today reiterates all the things I am teaching you in this course.



This day was a Friday and also the last trading day for the month of April 2004.


Bryce's X-ABCD v1.6
This is the week leading up to and including the day above:
The trend was clearly down going into Friday:
Published by eSignal (www.esignal.com)

When you learn to apply all the things I am teaching you in this course you will realise how simple it is to find reliable trading opportunities each and every trading day of the year.

Section 1: Chapter 19:

Summary:

In this first section I have related to you the things I practice and monitor on a day-to-day basis. Using these tools should allow you to become an extremely profitable trader if you can master them.

I have written most of this first section in real time to give you my thoughts first hand as the market unfolded day by day. If you adopt a daily work ethic for your analysis and prepare before the trading session opens you won't be in for any surprises. Then as the market moves along you just keep updating your chart with the important levels you can trade off.

There is still another world of things that I need to explain to you that will give you a wider field of focus when you need to draw on them. These things are related to old and new teachings and the practices employed by analysts and traders the world over. When you understand all the practices and tools available to the investment world and some of the beliefs they hold you will have a far greater appreciation for what it takes to be a winner.

By understanding what other people are up to and how they arrive at an analysis will give you an EDGE.

It is imperative that you study the rest of the material in this course if you are striving to be in the top 0.1% of the winner's circle.

You need to learn the whole story to stay on top of the market because the market goes through changing phases year in and year out. New situations can present themselves at times and only the experience of knowing what has happened in the past will help you make it clear.

You have to have an understanding of what has happened in the past and the technical reasons why. Simply because the future will only be a repetition of the past in some similar form and if you know what has happened in the past you will be able to deal with the future far more easily.

You also have to know when certain times of the year become important to traders and why certain other critical technical events are important. It will all be reflected in the money flow of the market. Without this knowledge you are no more than a mechanic.

If you want an ongoing peace of mind with the market you need to know what the other players could be up to when you reach critical technical situations that they will act upon.

Trading intra-day allows you to increase your size because you don't have to give the market any room, i.e., like you do with swing trading when you want to stay on the system trade.

What you should consider is that nothing lasts forever and it is only as good as it gets while it lasts. The market on an intra-day basis is more flexible to deal with and a lot easier to be consistent with using my approach.

There is no point in having to ride out large draw-downs in your account to come out ahead in the end – that is if you actually do. It is better to take small bites these could end up in huge mouth fulls sometimes – if you hit and run when the SIGNS are there you are better off in my opinion. Then you can go home and sleep well and don't think about the next day too much until it comes.

As you become more aware of where to take your trades you can scale up your size on the ones that offer the best historical opportunity. When you get into the big league you will be confident to trade in 20 lots or more. There are individual traders out there pushing anything from 5 to 200 lots on the reversal and continuation signs every time they appear.

Anytime you can get into a trade with a 1-point risk factor and can take more than 4 or 5 points you can kick goals.

Each day you should be looking for 2 good trades and once you have your wages take the rest of the day off.

The more you get to realise that all this business is, is just a job, you will be much more comfortable with it.

ONE DAY AT A TIME.

THE IMPORTANT THINGS YOU SHOULD HAVE LEARNT FROM SECTION 1:

1. Pay attention to the NEWS and the release of ECONOMIC REPORTS.
2. The 50% Balance Point Rule.
3. The 1:1 Overbalancing Rule.
4. The TWO DAY Correction Rule.
5. Prior Support becomes future Resistance.
6. Prior Resistance becomes future Support.
7. The three day Gann Swing is the best measure of trend.
8. Rectangles are a sign of a continuation pattern.
9. In a strong trend corrections should keep reducing in amplitude.
10. Open Interest can only rise if new sellers enter the market.
11. Traders believe that GAPS on the day session chart should be filled.
12. Volume spikes at geometric levels are a strong sign for a reversal.
13. A failed signal such as a false break is one of the strongest signals.

For more detailed information on false breaks see S4:C1:P25.

The foremost thing to learn is that you must never risk more than a point and a half on any single contract trade you enter.

If a trade is not working almost immediately you enter it the chances are you are wrong and you should scratch out and start again.

Believe what you see and not what you think.